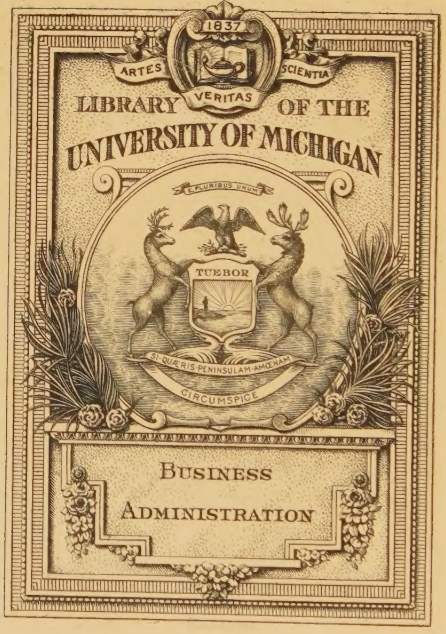
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RUSSIAN DEBTS AND RUSSIAN RECONSTRUCTION

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RUSSIAN DEBTS AND RUSSIAN RECONSTRUCTION

A Study of the Relation of Russia's Foreign Debts to Her Economic Recovery

BY

LEO PASVOLSKY

AND

HAROLD G. MOULTON

WITH THE AID OF THE COUNCIL AND STAFF OF THE INSTITUTE OF ECONOMICS

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DIRECTOR'S PREFACE

The Institute of Economics presents in this volume the second of its series of studies in the field of European reconstruction. The book, like "Germany's Capacity to Pay," published a year ago, is concerned with analyzing both the fiscal and the foreign trade problems involved in meeting huge foreign obligations. The Russian foreign debt, already enormous as a result of persistent borrowings for several generations, was more than doubled during the period of the Great War. Meanwhile the war and the devastating political and social conditions which have followed, have combined to destroy the greater part of the industrial development achieved in the last generation before the war, leaving Russia depleted of capital goods and in need of large additional foreign loans for reconstruction purposes.

Can loans for Russian reconstruction be safely extended—assuming a responsible government in Russia—if that government is also held liable for the payment of all existing debts? This is the central economic problem with which the statesmen of Europe wrestled in vain at the Genoa and The Hague conferences of 1922; it remains the unsolved economic problem presented by Russia. This book is essentially a study in investment credit analysis,

dealing, however, with a problem in public finance, rather than with one in private corporation finance. As such it should prove of as much interest to bankers and business men, concerned with the possibilities of credits and loans to Russia, as to statesmen burdened with the political and economic problems resulting from the World War and its aftermath.

The book is not concerned with the present state of economic conditions in Russia, nor with the status of Russia's diplomatic relations with the world at large. No more is it concerned with the length of time that may be required to restore stable conditions and to effect complete economic recovery in that country. It is concerned only with disclosing the relation of the existing debt situation to the problem of economic reconstruction, and in analyzing Russia's capacity to meet both war and pre-war debts *if* and *when*—with the aid of reconstruction loans—stable economic conditions are restored.

The data have been derived from official sources, supplemented by the writings of Russian economists and statisticians. Inasmuch as we are not dealing with present conditions, no use is made of Soviet statistics. The official trade, fiscal, and monetary data of Russia for war and pre-war years compare favorably in completeness and accuracy with those of other countries. The interested reader will find a detailed discussion of Russian statistical data in the Appendix. Selected public documents relating to the Russian debt problem follow the Appendix.

The authors desire to express their obligation to

members of the Council and staff of the Institute for criticisms and suggestions. Especial credit is due to Cleona Lewis for assistance in the interpretation of technical and statistical data, particularly in the Appendix. The authors also desire to acknowledge the many valuable suggestions and criticisms received from Russian scholars to whom the book was submitted in manuscript form. Chief among these are Professor S. N. Prokopovich, formerly of the University of Moscow; Professor A. N. Chelintseff, formerly of the University of Kharkov; Professor Samuel N. Harper of the University of Chicago; and Dr. M. L. Jacobson and Marcus Nadler of the Federal Reserve Board.

HAROLD G. MOULTON,
Director.

April 1, 1924.

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RUSSIAN DEBTS AND RUSSIAN RECONSTRUCTION

INTRODUCTION

In discussions of the Russian problem the argument is commonly advanced that Russia is a country of such vast potentialities that estimates of her debt-paying capacity based upon present conditions or even upon a return to pre-war conditions are of little value. It is pointed out that in the broad expanse of Russian territory, covering one-seventh of the area of the earth, lie inexhaustible sources of wealth ready for future development. With a large and fecund population, Russia lacks only capital and modern methods. Given a stable government and a reestablished capitalistic system, Russian debt-paying capacity in the not distant future would, it is argued, dwarf that of the days immediately preceding the war.

So great indeed is the confidence in Russia's economic future that it is urged by many that in the course of years, Russia's development will not only enable her to meet her own obligations, but will even make possible the payment of the reparation and interallied debts. The highly developed industrial

nations of Central and Western Europe, it is contended, may make loans for the reconstruction and development of Russia, the interest returns on which will in due course provide the means of paying their own debt obligations, just as after the Napoleonic Wars the debt problem of England was overcome through an extension of loans for the development of backward nations.

While no one can foretell what the distant future may bring to Russia in the way of economic expansion, it is possible to indicate the factors which will govern Russia's debt-paying capacity for a long time to come. It is no part of the purpose of this volume to make an appraisal of current conditions in Russia, nor to indicate how soon Russia may be reconstructed. The entire discussion assumes the possibility of Russia's return, with the aid of foreign reconstruction loans, to substantially the pre-war scale of operations. Otherwise, Russia can have no ability to pay her debts and any discussion of the subject would be fruitless. We are concerned only with showing the nature of the Russian debt problem, *if* and *when* Russia succeeds in restoring approximately her pre-war economic status. By the pre-war scale of operations, we do not necessarily imply a volume of output identical with that of pre-war years in every phase of economic activity, for allowances must be permitted because of reduced area and certain internal social and economic changes. We mean merely that Russia's basic industries would once more function on substantially the same scale as before the war.

The discussion is intended to be neither a prophecy nor a program. It is an analysis which is designed to furnish the answers to the following three fundamental questions:

1. What are the amounts which any Russian government would have to pay abroad on account of the various foreign obligations for which Russia is now held responsible?

2. What is involved in obtaining these amounts within the country by means of budgetary surpluses?

3. What is involved in making these surpluses available abroad and what is the probable Russian capacity to make such payments?

In endeavoring to answer these questions, we shall find it necessary to discuss certain controlling factors in the economic history of Russia since the middle of the last century, and particularly since the beginning of Russia's industrial revolution, which received its impetus under the regime of Count Witte just before the end of the century. The discussion will seek to disclose the inextricable interrelations of the problems involved in Russian agriculture and industry, Russian foreign trade, and Russian fiscal and monetary systems. These are the controlling factors in Russia's international-debt situation and in Russian economic reconstruction. They were the concrete economic issues with which Russia's pre-war statesmen were confronted. They are the problems which Russian leaders face to-day.

CHAPTER I

THE RUSSIAN PROBLEM

Since the night of November 6–7, 1917, when the Bolshevist *coup d'état* overthrew the last internationally recognized government in Russia, that vast, disordered country has been practically isolated from the rest of the world. The Russian Communist regime—the so-called Soviet government—which came into existence as a result of that overthrow, sought to establish in Russia, as well as elsewhere in the world, a system of social, political, and economic relations on a basis essentially different from that which governs civilized life in other countries.

In accordance with the social theory which underlay the Communist regime, the Soviet government not only repudiated the financial obligations of the Russian governments that had preceded it—the Imperial and the Provisional—but also nationalized and confiscated industrial, commercial, banking, and other forms of private property. This policy of repudiation and confiscation extended equally to Russian and to foreign holders of securities and owners of other property. In this manner the Russian Communist regime uprooted, so far as Russia was concerned, the whole economic system based on private contract and, by rejecting the very founda-

tions upon which international credit and commercial intercourse among civilized nations is built, isolated Russia from the rest of the world.

The Russian economic system, weakened by the war and the revolution, has been completely shattered during the period of communist experimentation. Russia's purchasing power in foreign markets was thus practically destroyed and the trade of other nations suffered in consequence. In Russia, moreover, lie great reservoirs of cheap raw materials and foodstuffs now denied to the industrial nations to the west. The rapid recovery of Russia is, therefore, a matter of no small commercial importance to the powers of Western Europe.

In 1922 the Allied statesmen then in power attempted in the conferences at Cannes, at Genoa, and at The Hague, to lay the groundwork for a geniune economic rehabilitation of Europe. Behind them lay three years of failure to achieve the economic recovery of Western Europe, while Russia remained isolated and German economic recovery was retarded by the reparation dilemma. They had finally become convinced that the economic rehabilitation of both Eastern and Central Europe is indispensable to world economic recovery. Complicating their difficulties in dealing with the Russian problem, however, was the fact that Russia is heavily in debt to the nations of Western Europe. How could commercial and financial relations be resumed with Russia, if her debts were not honored and paid? On the other hand, with a huge accumulated indebtedness as a heritage from the past, how could Russia

procure the means with which to purchase large quantities of foreign goods?

It was generally conceded that new loans would have to be extended to Russia. With credit Russia might succeed in rehabilitating her shattered economic system and regain financial solvency. But again the question arose: How could Russia procure new credits, if she refused to honor her existing obligations? With the exception of Germany, all the European powers have been insistent in holding that the fundamental principles of the sanctity of contract and the inviolability of foreign property rights must be reaccepted by the group in power in Russia, before the capitalists of western nations can be expected to extend any credits for the rehabilitation of Russia.

By the time the conferences of 1922 were held, the communist leaders had found themselves face to face with a constantly growing economic disorganization, which the system they had established was powerless to combat. In March, 1921, Lenin announced the "new economic policy," which represented a retreat from some of the fundamental tenets of the Communist creed. One of the elements in the retreat was an avowal of a willingness to reconsider their original position on Russia's international debts, as a preliminary to an establishment of formal political and economic relations between Russia and the rest of the world.

In the course of the negotiations between Russia and the Allied powers it developed, however, that there were certain irreconcilable differences of view,

which rendered impossible any working agreement. These differences are indicated in the documents at the end of the book (pp. 199–236).

The conferences at Cannes, Genoa, and The Hague laid down the primary conditions precedent to extensions of credit to Russia. These conditions still remain the primary bases on which any negotiations with Russia will be considered. The basic document dealing with the problem is the Genoa Conference memorandum of May 2, 1922. Paragraph 1, of Clause II of this memorandum says (p. 203):

"In conformity with the Cannes Resolution, the Russian Soviet government recognizes all public debts and obligations which have been contracted or guaranteed by the Imperial Russian government or the Russian Provisional government or the Soviet government itself toward foreign powers."

Clauses IV and V provide for recognition by the Russian government of all obligations due foreign private interests whether contracted by former Russian governments, by provincial or local authorities, or by public utility enterprises (p. 204). Finally, Clause VII (pp. 206–207) requires that the Russian government restore to the former foreign owners all their private investments in Russia which have been confiscated or nationalized, or make adequate compensation where restoration is no longer possible.

Beside these conditions, Clause II also states that the Allied Powers are willing for the present to make no claims upon Russia on account of her war debts, and provides for an eventual adjustment of the Russian war debts in conformity with any general

"arrangement concluded between the Allied and Associated Powers for the liquidation or rearrangement of war debts." Further provision is made for a *pro tanto* reduction of the war debts by the amount of the balances standing to the credit of any of the former Russian governments in the banks which are situated in the creditor countries.

The conditions are clear enough. The present, or a future, Russian government must honor all past external government obligations, national, provincial, and local, and those of public utility companies guaranteed by the Imperial government; and in addition it must recognize the property rights of foreign investors in Russian private enterprises. Reasonable time will be given before interest on the war debts will have to be paid, and these debts may even be adjusted in conformity with some general rearrangement or liquidation of interallied war debts. Fulfillment of these conditions is held to be the indispensable basis for any workable solution of the Russian problem.

Can any Russian government fulfill these conditions? If it can, what is involved in the process—both for Russia and for her creditors? If the conditions are impossible of fulfillment, what are the alternatives that still remain? These are the questions to which the analysis in this book seeks the answer.

A solution of the Russian problem is of major interest to the United States as well as to Western Europe. Not only does Russian economic rehabilitation depend upon the answer to the above questions, but,

in considerable measure, German economic recovery also hangs in the balance. At the same time the nations of Western Europe, as has already been pointed out, are dependent for their own economic recovery upon the rehabilitation of Central and Eastern Europe. Moreover, France, particularly, is a very heavy investor in Russia, and French ability to pay her external obligations to Great Britain and to the United States will depend upon the ability of Russia to pay her debts to France, as well as upon the capacity of Germany to make reparation payments. Thus, the outcome of the Russian problem is a factor in the adjustment of the war debts due to the United States.

Russian economic recovery is also an element in the future development of American foreign trade, not so much with Russia directly, perhaps, as with other European countries, whose trade would be stimulated by Russian reconstruction. (See pp. 159–161.)

The official position of the United States with regard to Russia is substantially the same as that of the Allied powers in Europe. The pronouncements of the American government with regard to Russia have also made the honoring by Russia of her international financial obligations a condition precedent to an establishment of formal intercourse with her and, consequently, to all credit relations with her. At the same time, there is an unmistakable willingness and eagerness in the United States to enter into extensive economic relations with Russia as soon as Russia accepts the fundamental principles enun-

ciated by our government.[1] This renders the question of what is actually involved in a fulfillment by Russia of the basic conditions laid down by the statesmen of Europe and America of primary importance on this side of the Atlantic.

The payment of Russia's foreign debts involves both foreign trade and budgetary problems. The payment of large foreign debts, whether public or private, always requires exports in excess of imports. While small payments can ordinarily be made through the transfer of specie, foreign securities, etc., Russia can make practically no payments in these ways under present conditions. She can pay only by means of bills of exchange arising out of exports. It must be clearly understood, however, that not all the funds (bills of exchange) arising from exports can be used to pay foreign debts; a considerable part of them must be used to buy such imports as are indispensable to the nation's economic life and to pay for necessary services performed by other countries. What is left after meeting these requirements can be considered as an "export surplus" which can be applied to the payment of foreign debts. In order to make payments over a long period of years, there must therefore be a continued excess of exports over imports.[2]

[1] For the official statement of the position of the United States government, see Documents, pp. 237–243.

[2] For a detailed discussion of what is involved for a nation in paying foreign debts, see Moulton, H. G., and McGuire, C. E., Germany's Capacity to Pay: Investigations in International Economic Reconstruction, Institute of Economics, Washington, D. C., pp. 1–24, 1923.

A government budget problem is also involved in the payment of foreign public debts. Exported commodities are normally owned by private individuals, and the bills of exchange which represent the export proceeds have to be purchased from these private individuals by the government which must meet payments on foreign debts. Any government which has to make payments abroad over a period of years must have in its budget an excess of revenues over expenditures for other purposes. The paying government may temporarily borrow within the country the money with which to buy the necessary bills of exchange, but as a year after year proposition these funds must be obtained from taxation. The taxation receipts over a period of years must exceed domestic expenditures by at least the amount of the external payments to be met. The purchase by the government of foreign bills of exchange is merely a method of converting the domestic currency in which taxes are paid into foreign currencies that are acceptable tender in the countries in which payments are to be made.

These are the two problems involved in determining Russia's ability to pay her foreign debts. Around them revolves the whole question of Russia's international credit, her economic recovery, and her reinstatement in world business relations.

Russia's capacity to export large quantities of goods with which to meet foreign obligations will be controlled by the same general economic conditions which governed her pre-war ability to meet the interest on her foreign debt. Regardless of changes

in political and social conditions in Russia, the nation's economic resources remain substantially the same as in pre-war days, allowance being made, of course, for loss of territory. Accordingly the basic pursuits of the millions of Russian people must follow the same general lines as in the past. The effective utilization of Russian resources will require at least the same transportation and communication facilities that Russia possessed before the war, and will necessitate, eventually, a standard of existence for the millions of Russian people approximately equal to the low standard which prevailed before the war.

An analysis of Russia's pre-war international trade and financial status and of Russia's pre-war budgetary problem is consequently necessary to any real appraisal of Russia's ability to meet her foreign obligations. The study reveals: first, the situation for the twenty-year period preceding the war; second, the changes resulting from the war and the revolution; and third, the difficulties involved for Russia in meeting her existing foreign obligations as well as the additional obligations which she must incur in the process of rehabilitating her productive equipment.

CHAPTER II

RUSSIA'S FOREIGN INDEBTEDNESS

The huge indebtedness which now encumbers the whole Russian problem is the result of both political and economic conditions. Some of it is attributable to wars and bad financial mangement on the part of the government, while some is the result of indispensable expenditures for internal economic development. An understanding of the origin, nature, extent, and distribution of Russia's foreign obligations, will provide a useful background for an analysis of Russia's future ability to meet her existing foreign debts.

Before studying the growth of Russia's foreign indebtedness, both public and private, it is necessary to review briefly the history of Russia's public debt—domestic, as well as foreign. The history of Russia's state credit begins with the latter half of the eighteenth century during the reign of Catherine the Great, when a Russian loan was floated in Amsterdam. Russia's early creditors were private banking houses in Holland and in some of the larger Italian cities, and she procured from these sources the sums of money needed for pressing state needs. Soon thereafter she began to float loans at home. Between 1769, the date of Catherine's first loan from Amsterdam, and 1914, the Russian government bor-

rowed, at home and abroad, approximately 15 billion roubles, of which a little more than 40 per cent was repaid during the same period.[1] At the outbreak of the war Russia's total national debt, at home and abroad, amounted to 8.8 billion roubles.[2]

Prior to the middle of the nineteenth century, the Russian state debt was not very large. But during the forties and fifties, the government's finances were so poorly handled that the state budget invariably showed huge deficits, in some years exceeding 25 per cent of the total expenditures. The situation was aggravated by the Crimean War (1854–55), when the budgetary deficits greatly exceed the revenues. Altogether, during the twenty-year period from 1844 to 1863 inclusive, the total budgetary deficits amounted to 1,154 million roubles.

These deficits were covered partly by issues of paper money, but mostly by secret borrowings from the funds of the government savings institutions. Toward the end of the period, however, the government made the mistake of lowering the rate of interest on deposits in the savings institutions, with the result that the depositors began to demand their savings. The government was unable to supply the necessary funds, and was compelled to consolidate the secret borrowings into regular state loans.[3]

[1] Pavlovsky, G. A., The Russian National Debt: The Russian Economist, Sept.–Oct., p. 40, London, 1920.

[2] The paper currency of the government was secured by a gold reserve of 100 per cent. Hence there was no debt on account of the currency.

[3] Ozerov, I., Nash Gosudarstvenny Dolg (Our State Debt), Moscow, pp. 4–5, 1908.

During the decade of the sixties the government faced the need of financing the operations connected with the liberation of the serfs. The land, which was turned over to the liberated peasants, was purchased by the government from the former owners, on the understanding that the money borrowed for this purpose would gradually be repaid to the treasury by the peasants who had received the land. The loans made for this purpose were incorporated in the national debt, and though the peasants' payments were continued for many years, the major portion of their indebtedness was finally remitted, leaving the remainder a part of the national debt.[1]

Extensive government borrowing was also occasioned by metallic reserve requirements. The gold standard was established in 1897 and for many years large accumulations of specie were required. The budgetary deficits occasioned by the Russo-Japanese war were responsible for the last appreciable national debt increases prior to the Great War.

All told, however, the largest single factor in the growth of the Russian national debt was railroad construction. For fifty years preceding the World War the government spent enormous sums for railroad construction and operation. It was found expedient to concentrate railroad control in the hand of the state, with the result that privately owned lines, built originally with the aid of the state, were gradually purchased from their owners. So extensive, financially, were these railroad operations, that of the total of 8.8 billion roubles of national debt

[1] Ibid.

outstanding at the outbreak of the war, no less than 3 billions are attributable to railroad borrowings.[1]

I. GROWTH OF THE FOREIGN DEBT

It is a significant fact that Russia's first regular state loans were contracted in foreign markets, rather than at home. Russia's foreign debt is, therefore, coexistent with the whole history of her state credit. Prior to the outbreak of the great war, Russia had the largest foreign indebtedness of any country in the world. As far back as 1906, a German writer [2] described the situation by saying: "Never in the history of this earth has any nation contracted so huge a foreign indebtedness as Russia."

A very considerable portion of this foreign debt is of recent origin. More than half of it was contracted during the twenty-year period preceding the World War. While there is no way of determining precisely the portion of the Russian pre-war debt held abroad, the method described in the Appendix offers a close approach to such a determination. The results obtained by the application of this method are shown in the table on page 17.

The figures in this table reveal Russia's international economic status, as reflected in her indebtedness. It is most significant that, while the net increase in the domestic debt during the period was very slight, the foreign debt continued to increase, steadily and rapidly, throughout the entire period.

[1] Pavlovsky, G. A., ibid.

[2] Martin, Rudolph, quoted in Alfred Manes, Staatsbankrotte, p. 202, Berlin, 1919.

The year 1892 marked the beginning of an era of rapid foreign-debt expansion. Prior to that year, the amount of Russian state indebtedness abroad did not exceed 1.5 billion roubles, and the growth of the debt was held fairly well in check. For some years before that Russia had very favorable balances of trade, because of exceptionally good crops and consequent large exports of grain; besides, world grain prices were high during this period. The

THE RUSSIAN PRE-WAR STATE DEBT *

(In millions of roubles)

January 1 of specified year	Total debt	Domestic debt	Foreign debt	
			Amount	*Percentage of total*
1895	5,775	4,042	1,733	*30*
1899	6,122	3,857	2,265	*37*
1904	6,651	3,592	3,059	*46*
1909	8,850	4,779	4,071	*46*
1914	8,811	4,582	4,229	*48*

* For the source of figures, see the Appendix, pp. 175–179.

excess of exports over imports was usually large enough to pay interest and amortization charges on the existing foreign debt, to cover other invisible items, and to purchase large amounts of gold and silver for monetary and other requirements.[1] During this period, moreover, the industrial develop-

[1] Migulin, P., Russky Gosudarstvenny Kredit (Russian State Credit), vol. 3, pt. 2, 1903.

ment of Russia had not begun; hence there was little foreign borrowing for development purposes in Russia. Most of the already existing debt had been incurred for political rather than for commercial purposes.

Soon after 1891 the situation changed markedly and the foreign debt which had been held in check began to increase rapidly. The favorable balance of trade, which was 300 million roubles in 1890 and 328 million in 1891, dropped, in 1892, to only 72 millions. Owing to a number of crop failures and to falling prices of grain in world markets, in no single year during the following decade did the balance of trade exceed 168 million roubles, while in 1899 it was even adverse. Moreover, in order to carry out the necessary monetary and economic reforms, without which future progress would have been impeded if not entirely prevented, Russia found herself compelled to increase her foreign borrowings.[1]

The foreign debt continued to grow during the first decade of the present century, owing to the fact that the favorable balance of trade was still insufficient to cover the necessary payments abroad, while at the same time the economic development of the country required more and more foreign capital.[2] The growth of the foreign debt was checked shortly before the war, because of exceptionally good trade

[1] Migulin, P., ibid., p. 203 ff.

[2] Ozerov, I., Study on the National Debt; also Kak Raskhoduyutsya v Rossii Narodniya Dengi (How the People's Money is Spent in Russia), 1907.

balances in 1909, 1910, and 1911. But starting with 1912, the foreign-trade situation again took a turn for the worse, and at the outbreak of the war was regarded as critical.[1]

The increase in Russia's indebtedness abroad was due to municipal and private as well as to state borrowing. Local governments and municipalities borrowed money for the development of their public utilities. The bonds of privately owned railroads, bearing a guarantee of the Imperial government,

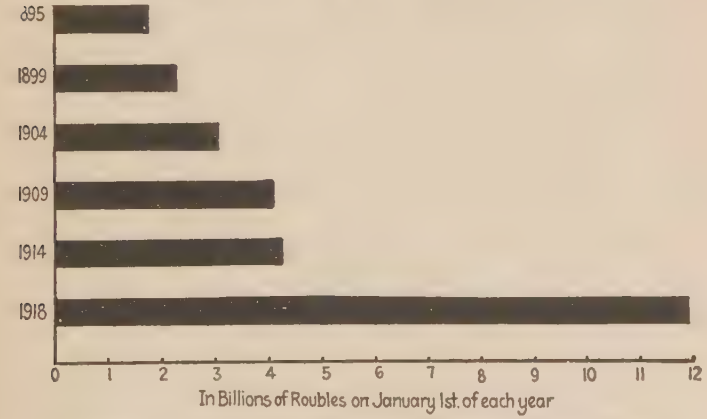

FIGURE 1.—GROWTH OF RUSSIAN FOREIGN STATE DEBT.

were sold abroad in large quantities. Private industrial enterprises also offered their securities in the foreign money markets. During the period under consideration, i.e., the two decades immediately preceding the war, the Russian state debt abroad increased by about 2.5 billion roubles; industrial

[1] Further discussion of the Russian balance of accounts will be found in the next chapter.

investment increased by no less than one billion roubles; and municipal and guaranteed loans increased by about 600 millions.

Russia's foreign borrowings prior to 1914 were thus occasioned primarily by her economic and financial needs during the last two decades of the pre-war period. This fact, which will be discussed in greater detail in the next chapter, is of no little importance in considering Russia's present situation. It is well to bear in mind at the outset that even before the war Russia's international situation was such that extensive foreign credits were indispensable to her economic life.

The financial operations involved in the prosecution of the world war greatly increased Russia's state indebtedness both at home and abroad. To the internal debt of about 4.5 billion roubles there were added, because of the war, 16.5 billions besides the immense issues of paper currency. The debt abroad was increased by 7,681 millions.

II. EXTENT AND DISTRIBUTION OF RUSSIAN DEBTS

We are now prepared to consider the question of the extent and distribution of Russia's foreign debts. As we have already seen, there are five items of indebtedness to be taken into account, viz, the pre-war state debt, guaranteed loans, municipal loans, the war debt, and industrial investment.

The following table presents the amounts of these various international obligations, for which Russia is held responsible.[1] No allowance is made for the

[1] It will be noted that some of these figures differ materially from

claims advanced by the Soviet government for reparation damages resulting from the military operations of Allied armies in Russia. This question involves a political issue with which we are not here concerned.

	Millions of roubles
Pre-war state debt	3,850
Guaranteed loans	870
Municipal loans	422
Industrial investment	2,000
War loans	6,681
Total	13,823

There is no definite information available as to the distribution by countries of the pre-war state debt or of the guaranteed and municipal loans, though certain estimates are available. Studies have been made to indicate the nationality of the principal holders of Russian industrial securities. For the war loans we have definite figures on distribution by countries.

Taking all of these items of indebtedness into account, we obtain the following distribution of Russia's foreign debts.[1] Russia's principal creditors are Great Britain, France, the United States, and Belgium. The pre-war government debt is held largely in France (80 per cent) and in Great Britain (14 per cent). The industrial securities are held

those given in the text above. The reason for this is that in arriving at the figures given in this table we have applied certain deductions, the nature of which, as well as the general method used, are described in the Appendix, pp. 180–181, 194.

[1] For the materials used in arriving at these percentages and the method employed, see Appendix, pp. 181–182.

mainly in France (32 per cent), Great Britain (25 per cent), Germany (16 per cent), Belgium (15 per cent), and the United States (6 per cent). The war debt is owed to Great Britain (70 per cent), France (19 per cent), and the United States (7 per cent).

It is with these countries that Russia has to deal in the settlement of her debt problem.

CHAPTER III

RUSSIA'S PRE-WAR INTERNATIONAL ACCOUNTS

Having discussed the extent and origin of Russia's foreign obligations, we may now consider the factors involved in the first of the three fundamental questions stated in the Introduction: What are the amounts which the Russian government would have to pay abroad on account of the various foreign obligations for which it is held responsible? To answer this question, one must first examine Russia's international trade and financial operations both prior to and during the Great War.

Russia's pre-war international economic position presents a sharp contrast to that of such countries as Germany and Great Britain. Germany, a highly developed industrial nation, had a dense population that had to be fed in considerable measure on imported foodstuffs. Germany had also developed a great industrial machine which had to be supplied with imported raw materials. Germany was thus vitally dependent upon the maintenance of a huge import trade. These imports were paid for in part from the proceeds of exports, chiefly of manufac-

tured goods; in part by rendering to foreigners shipping, insurance, and banking services; and in part by the proceeds of interest on accumulated foreign investments. In the twenty-year period preceding the Great War, these sources of income yielded enough annually to pay for essential imports and to leave something for additional investments abroad. Germany was a growing creditor nation.[1]

Russia (a backward industrial nation) was a producer of foodstuffs and agricultural raw materials in excess of domestic requirements. She was an importer of certain types of raw materials and manufactured goods and an exporter of agricultural products. But, as we shall find, Russia did not succeed in exporting enough to meet interest on foreign debts and to pay for imports and services for which she was indebted to foreign countries. Russia, unlike Germany, had only exports with which to make foreign payments.[2] In other words, in the twenty years preceding the Great War Russia had an unfavorable balance of payments and was borrowing increasingly in foreign markets. She was a debtor country steadily increasing her foreign obligations.

The Russian international trade and financial problem (that is, her balance of payments) may be indicated as follows:

[1] For a full discussion of Germany's pre-war balance of accounts the reader is referred to Moulton, H. G., and McGuire, C. E., Germany's Capacity to Pay, Chapter II.

[2] For a discussion of such items as emigrant remittance, funds taken out of Russia by emigrants, and shipping charges, see Appendix, pp. 184–188.

Exports had to pay for
- Imports of goods and specie
- Insurance, banking, and similar services
- Expenditures of Russian tourists and official representatives abroad
- Interest on government obligations held abroad
- Interest on municipal bonds held abroad
- Interest on state guaranteed railroad bonds held abroad
- Interest and dividends on private industrial securities held abroad

In the present chapter we shall show, first, the manner in which Russia succeeded in meeting her current foreign obligations in the twenty-odd years immediately preceding the Great War; and second, the effects of the war upon Russia's international obligations and the resulting post-war debt problem.

I. THE BALANCE OF PAYMENTS BEFORE THE WAR

As already noted in the preceding chapter (p. 18), the beginning of the last decade of the nineteenth century marked a profound change in Russia's international financial status. Her balance of payments, that is, her trade and invisible accounts, which had been favorable for some years theretofore, turned against her, principally as a result of a sharp decline in her balance of trade and an increase of specie imports for monetary uses.

The table on page 27 shows Russia's foreign trade and specie movements annually from 1892 to 1913. In order to reveal more clearly the changes that occurred in the early nineties, averages for the period 1887–91 are given at the head of the table. The final column represents the difference between the value of commodities and specie sold by Russia to foreign countries and the value of commodities and specie bought by it from foreign countries.

This table reveals the striking changes that occurred in Russia's international economic status in the early nineties, and accounts for the rapid growth in Russia's foreign debt, to which attention was called in the preceding chapter. In the five-year period from 1887 to 1891, exports of commodities averaged 722 million roubles. In the succeeding five years they averaged only 587 million roubles, a decline of nearly 20 per cent. In no single year until 1897 did exports equal the average of the five-year period from 1887 to 1891, and not until 1902 was the record of the year 1888 at last exceeded. Imports of commodities, on the other hand, increased during the same period from an average of 401 million roubles to an average of 513 millions, or by nearly 30 per cent. From 1892 on, these imports were invariably larger than the average for the years 1887–91. During the years 1887–91 the movement of bullion and specie was almost negligible. But during the following five years imports of the precious metals increased heavily, while exports of bullion and specie, with the single exception of the year 1900, remained very small. If the net imports of specie

RUSSIA'S FOREIGN TRADE, 1887–1913*

(In millions of gold roubles)

Year	Trade balance			Bullion and specie balance[c]			Net trade and specie balance[a]
	Exports	Imports	Net[a]	Exports	Imports	Net[a]	
1887–91[b]	722	401	321	22	31	− 9	312
1892	476	404	72	5	114	−109	− 37
1893	599	464	135	7	31	− 24	111
1894	672	562	110	42	131	− 89	21
1895	698	545	153	1	38	− 37	116
1896	689	590	99	2	118	−116	− 17
1897	727	560	167	13	209	−196	− 29
1898	733	617	116	5	132	−127	− 11
1899	627	650	− 23	51	82	− 31	− 54
1900	716	626	90	134	34	100	190
1901	762	594	168	72	18	54	222
1902	860	599	261	7	14	− 7	254
1903	1,001	682	319	5	28	− 23	296
1904	1,006	651	355	39	26	13	368
1905	1,077	635	442	47	64	− 17	425
1906	1,095	801	294	18	38	− 20	274
1907	1,053	847	206	13	11	2	208
1908	998	913	85	19	28	− 9	76
1909	1,428	906	522	27	46	− 19	503
1910[c]	1,449	1,084	365				
1911[c]	1,591	1,162	429				
1912[c]	1,519	1,172	347				
1913[c]	1,520	1,374	146				

* The trade figures are taken from Review of the Russian Foreign Trade, official publication of the Russian customs duties department; the bullion and specie figures, from Statistical Abstract for the Principal and Other European Countries, published by the British government.

[a] The minus sign indicates an excess of imports over exports.

[b] Annual average.

[c] Figures for the bullion and specie movement after 1909 are not given in Russian official reports.

be added to the commodity imports, the total increase of imports amounted to over 40 per cent.

The decline in exports resulted in part from a number of bad crop years during the decade of the nineties, but more largely from the general fall in the world prices of Russia's principal export commodities, cereals. The chart (fig. 2) shows both the volume and the value of Russian grain exports, from 1866 to 1913.

The increase in commodity imports was due to the fact that a certain minimum of imports was indispensable to the maintenance of the economic life of the country as it existed, and additional quantities of machinery, basic raw materials, etc., were imperatively required if the industrial development program inaugurated by Count Witte at the beginning of this period was to be carried through. Similarly, the great increase in specie imports was due to the fact that the reform of the Russian monetary system and the establishment of the gold standard, accomplished in 1897, could not be effected without large accumulations of imported gold.

Starting with 1901, the trade balance improved rapidly up to the time of the revolution of 1905, when it began to decline, owing to a rapid expansion of imports. It was almost wiped out in 1908 because of another crop failure. During the three years following, however, bumper crops brought about a complete recovery, though the last two years before the war again exhibited a sharp downward tendency. Imports, during these years (1909–12), showed an almost continuous increase, being unaffected by the

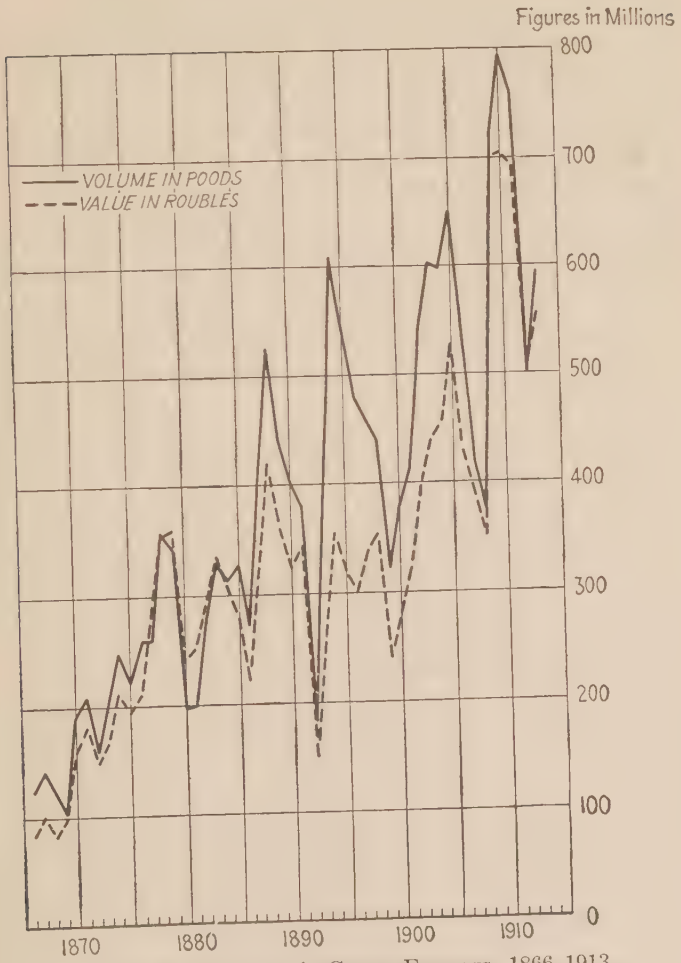

FIGURE 2.—RUSSIA'S GRAIN EXPORTS, 1866–1913.

low exports of 1908. While the Russo-Japanese war of 1903–05 did not increase the total volume of Russian imports, the rapid industrial expansion which followed the revolution of October, 1905, is reflected in a marked increase in 1906 and subsequent years. During the years following 1901, too, the bullion and specie movement ceased to play a perceptible part in affecting the trade balance. No figures are available for the last four years before the war, as the Russian government apparently stopped reporting the bullion and specie movement after 1909. There is no reason to believe, however, that there was any great increase in the movement.

Russia usually had a favorable balance of trade. The table on page 27, however, reveals significant fluctuations in Russia's *net* trade and specie balance before the war. In the five-year period ending with 1891, the net favorable balance was 312 million roubles. In the following eight years the average was only a scant 12 millions, almost negligible. During the next ten years it increased to an average of 282 millions, while in the last four years preceding the war the trade figures show an average balance of 322 millions in Russia's favor.

As shown on page 25, Russia's exports had to cover not only imports of goods and specie; they had also to provide the means of paying for services rendered by foreigners to Russia and the interest on various types of Russia's foreign obligations, both public and private. These payments, aside from imports of goods and specie, constituted the so-called "invisible items" in Russia's international balance of accounts.

All these items were on the debit side of the international balance sheet in the case of Russia, rather than on the credit side, as in the case of Germany and Great Britain. They represented services rendered to Russia by other countries; Russia was a debtor rather than a creditor, so far as the service items were concerned. Unlike the industrially developed countries of Western Europe, therefore, Russia had no international income from any sources except her exports, and her total paying capacity abroad was, consequently, equivalent to the proceeds of her export trade.

As already indicated, the final column of the table on page 27 shows that, except during the few years when Russia was importing large quantities of gold for purposes of monetary reform, she had an excess of exports over imports. This net income was thus available for meeting interest on foreign loans and payments for her other invisible obligations. We may now pass to a consideration of these invisible items.

Russia's export surplus was usually inadequate to cover interest and service charges abroad. Data with reference to her obligations on account of services rendered by foreigners is far from satisfactory. A discussion of these items, however, is given in the Appendix (pp. 187–191). Estimates of interest due on the various classes of debts are much more nearly accurate, as the discussion in the appendix shows. Since these latter items constitute a large percentage of the total, the aggregate for the invisible accounts may be accepted as fairly reliable. The

following statement shows in million of gold roubles, the approximate amounts of the various items averaged for the five years immediately preceding the war:

Charges for non-marine insurance, banking, etc.	25
Tourist and official expenditures	70
Interest on state debt	180
Interest on municipal debt	21
Interest on guaranteed debt	39
Interest and dividends on industrial investment	105
Total	440

It appears from the available data that in the preceding five years, 1904–09, the foreign expenditures incurred on account of the various invisible items averaged 400 million roubles a year. For the decade 1894–1903, the invisible expenditures averaged approximately 300 million roubles a year. It will be seen that these amounts were greatly in excess of the favorable trade and specie balance available for their payment. (Compare with table on p. 27.) The deficiency of the export surplus explains why it was necessary for Russia to borrow continuously in foreign markets. In fact, there was not a single year between 1892 and 1905 when the trade balance was sufficient to meet the service charges and the interest on the foreign indebtedness, and there were only three years, at the most, during the entire period to 1914 when resort to new borrowing was not necessary.

Could not Russia have avoided a constant resort to foreign borrowing by a drastic change in her financial

and trade policies? Concretely, might she not have greatly expanded her exports; or greatly reduced her imports; or refrained from importing gold in the decade of the nineties, or, in any event, could she not have exported gold in the later years?

It must be borne in mind that the recurring deficits in Russia's balance of payments proved a controlling influence in the country's entire national economic policy. In order to appreciate the significance of this statement, we must give attention to the concrete problems with which Count Witte and the other Russian statesmen of the two decades preceding the war were constantly confronted. In the decade of the nineties, it may be recalled, Russian exports were sharply curtailed as a result of a number of poor harvests and falling world prices of grain, occasioned by the increasing competition of the United States, Australia, Argentina, and the Danubian countries. Accordingly, it became very difficult for Russia to obtain enough bills of exchange to meet foreign payments.

At the same time it was regarded as a matter of the first importance that the gold standard be established in Russia, both as a means of stabilizing internal finances and of strengthening the credit position abroad. The leading countries of the world had already adopted, or were about to adopt, the gold standard, and it was of the utmost importance for Russia to fall in line, which she succeeded in doing in 1897. In order to make this possible it was necessary to import large quantities of gold, Russian gold production being entirely inadequate for the purpose.

In later years, Russia was under the necessity of preserving a very large gold reserve in view of her otherwise weak position in international finance. It is true that the gold reserve of the Russian State Bank appeared at times somewhat larger than necessary,[1] but it must be remembered that in order to facilitate the process of foreign payments the Russian government found it necessary to maintain a considerable portion of its gold reserves on deposit in foreign banks. These foreign deposits were owned in about equal proportions by the Russian State Bank and the Russian Treasury. They were used for the regulation of the balance of payments with a view to preventing violent fluctuations in Russian exchange, such as would have accompanied large movements of bullion and specie. On January 1, 1914, the amount of Russian gold credits abroad was 594 million roubles.[2]

Meanwhile, faced with the difficult problem of accumulating and maintaining an adequate gold reserve, and confronted with enormous foreign payments for imports, services, and interest charges, the Russian government found its credit at a low ebb. Complicating her otherwise difficult external problem and weakening the basis of her credit abroad

[1] In the Appendix, pp. 191–192, will be found figures of the gold reserve of the State Bank, both at home and abroad, from 1883 to 1914, inclusive.

[2] This fund was distributed as follows: France, 431 million roubles; Germany, 103 millions; England, 46 millions; Holland, 8 millions; other countries, 6 millions; total, 594 millions. *Russia; Its Trade and Commerce, A Symposium of Studies on Russian Economic Conditions, edited by A. Raffalovich, p. 398, London, 1918.*

was the defective nature of Russia's governmental system. Russia's political credit was weak.

In an attempt to bolster up her credit position and gain the confidence of foreign investors, Russia resorted to various expedients. For example, in 1898 the Russian government ordered the interest on the state rentes to be expressed in foreign currencies rather than in roubles, and two years later, the foreign holders of the Russian rentes were exempted from a 5 per cent tax levied on the rente coupons in Russia proper.

Throughout this period, Russia's political credit was so weak that foreign investors demanded more adequate security than the mere promises to pay given by the government. Accordingly, the Russian government purchased on the Russian market land mortgage bonds and offered these to foreign investors. The government also bought existing railroad securities and sold them in foreign countries; and what is more important state railroads were built in order to provide additional securities, which could be marketed abroad.[1] Indeed, it was this necessity of offering securities which were based on productive properties that led the lethargic Russian bureaucracy to promote the internal development of transportation, public utilities, and industries. While it would perhaps be too much to say that the Russian industrial revolution was altogether a child of adversity, there is little doubt that the pressing need of improved credit with which to keep the state out

[1] Migulin, P., ibid., p. 203.

of international bankruptcy played an important part at the beginning of Russia's industrial era.

The impetus which was thus given Russia's industrial development, naturally continued more or less as a result of its own momentum. Now this industrial expansion required a steadily expanding volume of imports of industrial equipment as well as of certain raw materials not produced in Russia. An improvement in the balance of trade could not, therefore, be brought about through a curtailment of imports.[1] While economic expansion led in time to an increase in the national income and afforded some improvement in the internal budgetary situation, it did not eliminate the difficulties presented by the external situation, the key to which lay in an increase of exports.

As a matter of fact, every effort was being made to expand exports. In view of the enormous volume of foreign bills of exchange required in paying for imports, for services rendered by foreigners, and for interest on the accumulated indebtedness, an expansion of exports was regarded by Russian statesmen as of paramount importance. The fear of a possible loss of gold reserves by exportation, and the consequent breakdown of Russia's internal monetary system as well as of her international credit, further emphasizes the necessity of expanding exports. The rapid increase in the total of the foreign debts exerted pressure in the same direction. Special measures were accordingly employed to place food-

[1] Chapter VII is devoted to a full discussion of the character of Russia's pre-war import trade.

stuffs on the market and make them available for exportation. For example, government tax officials were especially active in demanding taxes from the peasantry in the fall of every year, with the result that in some portions of Russia seed grain was thrown on the market by the harassed peasantry.[1] The government, through its various agencies, would then buy up the bills of exchange arising out of grain exports [2] and would thus be enabled to make payments abroad, without the actual exportation of gold or currency.[3]

The Russian situation of the nineties thus presented a very real dilemma. The accumulated indebtedness created an insistent pressure for foreign payments which could only be met by new borrowings. The international burden was so heavy and Russia's internal situation, both politically and economically, so weak, that the only way out appeared to lie in promoting internal financial reforms and internal industrial expansion. The operations involved in bringing about these desired ends, however, for a time inevitably added to the strain of meeting foreign payments, while only very gradually did they improve the debt-paying capacity of the nation. The budget problem was also complicated by the necessity of floating internal loans with which to buy railroad and other bonds which could be sold abroad. The budget, however, thanks to the

[1] Ozerov, I., Ekonomicheskaya Rossiya, p. 166, 1905.

[2] Russia: Its Trade and Commerce, p. 398, 1918.

[3] Further light will be thrown upon the export problem by the discussion in Chapter VI, dealing with the character of the Russian export trade.

productivity of the liquor monopoly in the later years before the war, presented no great difficulty as compared with the problem of meeting foreign payments by means of an export surplus.

In this analysis of Russia's economic history during the twenty-five years prior to the Great War we have stressed the importance of huge foreign payments as a motivating or controlling force. The Russian government did not, as might be supposed, deliberately set out in the decade of the nineties to promote internal development with the aid of foreign capital, thus expanding imports and giving rise to temporary difficulties in meeting foreign payments. In common with Russian economists we are convinced that the process was the other way around.[1] The Russian bureaucrats were quite content with the feudal economic system of the country; they were not interested in internal development nor in modernization of the Russian economic system. If anything, they were opposed to such development on the ground that it might undermine the existing political system. But they were vitally interested in keeping out of international bankruptcy and in maintaining Russia's position in the world as a first-rate power.

The situation that confronted the Russian statesmen in the nineties was a financial condition and not a theory of economic development. Russia was not a new country unencumbered by debt; she was an old country with a large existing foreign debt resulting from past wars and bad financial administration. When the export trade heavily declined as a result

[1] Migulin, Ozerov, and others.

of the agricultural reverses of the early nineties, the Russian government was definitely confronted with international bankruptcy. Under financial pressure the Russian statesmen resorted to the various expedients mentioned above in the hope of extricating themselves from a predicament. Internal expan-

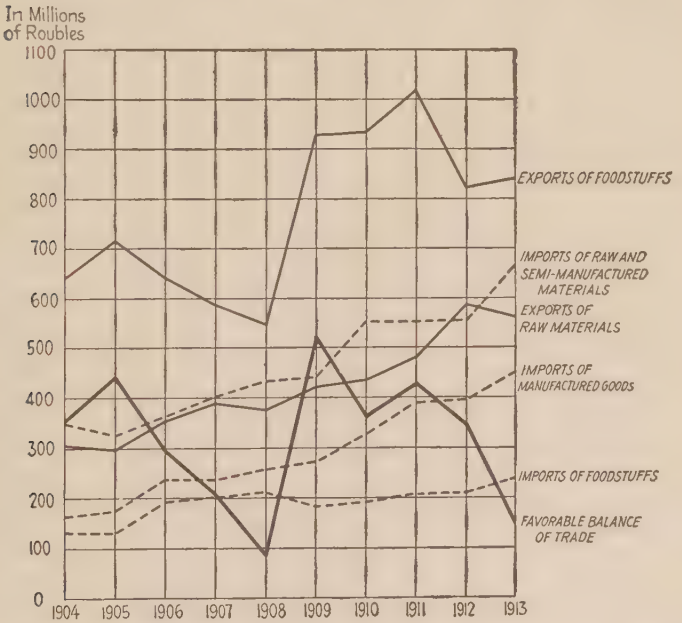

FIGURE 3.—RUSSIA'S BALANCE OF TRADE IN RELATION TO PRINCIPAL CLASSES OF EXPORTS AND IMPORTS, 1904–13.

sion was thus chiefly a result rather than a cause of an unsatisfactory trade situation. Whether internal expansion was in fact the best means of overcoming the difficulties is more or less beside the point; it is sufficient to know that it seemed to the embarrassed Russian officials to offer the only way out.

As we have seen from the foregoing analysis, during the whole twenty-year period preceding the Great War, Russia was seldom able to meet her external obligations without new borrowings, and her whole international credit position remained precarious. By the outbreak of the Great War, the internal development that was occurring had not yet placed Russia on an enduring basis, as shown by the chart (fig. 3, p. 39). An occasional good crop year alone made it possible for Russia to keep up appearances.

In the light of this analysis of the forces which were of vital and controlling importance in Russia's pre-war financial and industrial history, it will be of interest to note the composition of Russia's foreign debt in 1913. Russia's pre-war foreign obligations, for which (according to our estimate in Chapter II), she is now held responsible, are as follows:

COMPOSITION OF RUSSIA'S PRE-WAR FOREIGN DEBT

(In millions of roubles)

Character of obligations	Loans on productive properties	Straight government loans
Pre-war state debt[a]	1,925	1,925
Guaranteed loans	870	
Municipal loans	422	
Industrial investment	2,000	
Total	5,217	1,925

[a] Foreign holdings of Russian railroad bonds are especially large. The ratio of foreign investment in Russian state railroad bonds to foreign investment in other Russian state securities is much larger than the ratio of domestic investment in Russian state railways to the total state debt. About 35 per cent of Russia's total state debt at home and abroad consists of securities issued on account of the government-owned railroads, but there is every reason to believe that fully one-half of the foreign state debt is represented by railroad issues.

These facts with reference to the pre-war Russian international status must be clearly appreciated if one is to gauge the capacity of a future Russia to meet, not only these pre-war debts, but also all of the obligations incurred in connection with the destructive operations of the war period.

II. EFFECT OF THE WAR ON RUSSIA'S INTERNATIONAL STATUS

The Great War had a profound effect upon Russia's international trade and financial status. Because of the exigencies of military operations the export trade was demoralized and Russia was forced to borrow tremendous sums in foreign markets.

During the war Russia's favorable trade balance was superseded by a huge deficit. The following table shows the comparative trade figures for the last full pre-war year and the first three war years:[1]

RUSSIA'S FOREIGN TRADE, 1913–16
(In millions of roubles)

Year	Exports	Imports	Balance of trade[a]
1913	1,520	1,374	+ 146
1914	956	1,098	− 142
1915	402	1,139	− 737
1916	476	1,717	−1,241

[a] The plus sign indicates a favorable and the minus sign an unfavorable balance.

The figures for the war years are in paper roubles. The rouble was, however, practically at par in 1914,

[1] Review of Russian Foreign Trade, 1915. Figures for the year 1916 were supplied by the Eastern European division of the U. S. Dept. of Commerce.

and only slightly depreciated in 1915. In the latter months of 1915, following the Russian defeat in Galicia, the rouble fell to something like two-thirds of its pre-war value, but during the year 1916 the decline was arrested and it was not until 1917 that the catastrophic drop began.[1] The fall in the exchange, coupled with the general rise in prices meant that the volume of Russian foreign trade was smaller than even these figures indicate. But the change in the balance of trade was much more significant than the decrease in the volume, especially from the point of view of Russia's international position.

The fall in the exchange value of the rouble had no reflection in the trade deficits. They had to be met rouble for rouble, and since, as we shall see below, Russia covered these deficits by means of foreign borrowings, the stupendous new foreign obligations piling up against her were presumably to be payable at a future date in gold roubles or their equivalent. In other words, a rouble was regarded as still a rouble.

It is impossible to determine the effect of the war upon all the invisible items in Russia's international accounts. There are no data with reference to

[1] The fluctuation in the exchange value of the rouble during the years of the war may be seen from the table below.—*Diesen, Emil, Exchange Rates of the World, vol. 2, pp. 105–06, Christiania, 1922.*

	High	Low		High	Low
1914. 3rd quarter	$.52	$.51	1916. 2d quarter	$.32	$.30
4th quarter	.48	.42	3rd quarter	.34	.30
1915. 1st quarter	.45	.42	4th quarter	.32	.30
2d quarter	.44	.38	1917. 1st quarter	.30	.28
3rd quarter	.38	.31	2d quarter	.29	.23
4th quarter	.36	.30	3rd quarter	.24	.14
1916. 1st quarter	.32	.29	4th quarter	.16	.12

shipping, banking, and insurance charges, or of expenditures abroad of private Russian travelers or of government officials and special missions.

Russia did not export much gold to cover trade and financial deficits, but she pledged gold as security for loans. These loans and credits were obtained under a series of interallied agreements, the arrangement being similar to that under which war credits were extended to France by Great Britain. Russia used for the purpose the foreign gold deposits accumulated in pre-war days, but she also found it necessary to export for the purpose about 640 million roubles in bullion and specie. Most of this gold never reached the Allied countries in Europe. In order to avoid the menace of the German submarines it was shipped across Siberia to Japan; then transported in Japanese cruisers to Canada; and thence found its way into the United States in payment for the war orders placed here by the Allies. This pledged gold remained, of course, the property of Russia, though it is not included in the following table showing the gold reserves of the Russian government during the war period:[1]

RUSSIA'S GOLD RESERVES, 1914–17

(In millions of roubles)

	In Russia	Abroad	Total
August 1, 1914.....	1,604	140	1,744
January 1, 1915.....	1,558	170	1,728
January 1, 1916.....	1,613	648	2,261
January 1, 1917.....	1,475	149	1,624

[1] La Dette Publique de la Russie, p. 176, 1922.

A substantial maintenance of the gold reserves in Russia, despite the large exports, was made possible by the withdrawal of gold from circulation and its concentration in the State Bank, as well as by the output of the Russian gold mines. At the time of the Bolshevist *coup d'état* in November, 1917, the gold reserves of the Russian State Bank were still estimated at 1,200 million roubles, while the actual gold holdings abroad (not counting the fictitious credits in the Bank of England shown in the statements of the Russian State Bank) [2] were 309 million roubles.

Because of the inadequacy of her exports, Russia had to incur heavy additional debts abroad. Payments of interest were continued—the funds being borrowed for the purpose—and even a certain amount of matured obligations were thus met. The foreign indebtedness of the Russian government, however (see p. 20), increased by a nominal total of 7,681 million roubles. In this manner the total foreign obligations of Russia were approximately doubled during the period of the war.

Under the Soviet regime Russia's gold supply has been practically exhausted. On January 21, 1918, the Soviet government promulgated its decree, annulling "all foreign debts, without any exception or condi-

[2] The amounts of Russian gold holdings abroad, as shown in the official statements of the Russian State Bank, were 2,149 million roubles on Jan. 1, 1917, and 2,309 million roubles on Jan. 1, 1918. These figures, however, are largely fictitious. In each case there are included 2,000 million roubles of gold credits, extended to the Russian State Bank by the Bank of England as an emergency war measure.—*La Dette Publique de la Russie, p. 208, 1922.*

tion" (see Documents, p. 197), and since then there has been no change in the status of Russia's international accounts, except for an almost complete depletion of the Russian gold reserves.

A part of this gold (about 120 millions of roubles) was shipped to Germany in conformity with the treaty of Brest-Litovsk.[1] A small part of the gold reserves was shipped abroad for the purchase of war materials by Admiral Kolchak's government in Siberia, almost half of the total supply being in its possession during the civil war up to the time of its defeat by the Soviet troops. The rest of the gold —practically all that remained—has been used by the Soviet government for various communist activities abroad and also to cover the adverse balance of trade since 1920, when Russia resumed, in some measure, her commercial intercourse with the rest of the world.

Thus as a result of the war and the revolution Russia's state indebtedness abroad has been more than doubled and her stocks of gold have been practically exhausted.

We are now prepared to answer the question raised at the beginning of the chapter: What are the amounts which any Russian government will have to pay abroad on account of the various obligations for which Russia is held responsible? On page 21 were given the amounts of the various sums of

[1] By the terms of the Treaty of Versailles this gold was ceded by Germany to the Allies and is now held by them in trust for Russia, pending an adjustment of their claims against her.

indebtedness for which Russia is held responsible. On the basis of these amounts the annual interest charges which Russia would have to meet abroad would be as follows,[1] in millions of roubles.

Pre-war state debt:	
General	90
Railroad	90
Municipal and guaranteed loans	60
War debt	400
Total	640

There is one more item to be considered, viz., interest on a possible new foreign loan, made either in a lump sum or over a period of several years, for the purpose of enabling Russia to reestablish her economic life. The amount of such a loan is generally estimated at 3 billion gold roubles ($1,500,000,000), the interest on which, at 8 per cent,[2] would amount to 240,000,000 roubles a year. The total annual interest charge to be met would thus amount to 880 million roubles.

The payment of these amounts would be dependent in the future, as it was in the past, upon the condition of Russia's foreign trade and financial accounts. The items which will make up Russia's future international balance sheet will be discussed in Chapter VIII. We must, however, first turn our attention to the Russian budgetary problem and to the controlling factors in the Russian foreign-trade problem.

[1] For the method used in obtaining these figures, see the Appendix, p. 189.

[2] It is doubtful if Russia could obtain such extensive credits at a lower rate of interest than 8 per cent.

CHAPTER IV

THE RUSSIAN BUDGET

In Chapter I it was made clear that the paying of external obligations involves a twofold problem. There must be an excess of exports over imports in the country's foreign trade, and of revenues over expenditures in its state budget. It is the second part of the problem with which we are concerned in the present chapter. We shall therefore endeavor now to find an answer to the second of the fundamental questions enumerated in the introductory chapter: What is involved for the Russian government in obtaining within the country, by means of budgetary surpluses, the amounts necessary for the payments it has to meet on account of its foreign debts?

I. THE PRE-WAR BUDGET SITUATION

Russia's state budget prior to the war was divided into two parts, the ordinary and the extraordinary. The ordinary budget consisted of regular receipts and disbursements, while the extraordinary was made up of special, or nonrecurring, items.

For twenty years immediately preceding the war, the ordinary budget invariably showed an excess of revenues over disbursements, but this surplus, as

we shall see directly, was more than used up by extraordinary expenditures. The following table gives the figures for the ordinary budget at five-year intervals during this period:

RUSSIA'S ORDINARY BUDGET, 1895–1913*

(In millions of roubles)

Years	Revenues	Disbursements	Surplus
1895	1,244	1,129	115
1900	1,704	1,555	149
1905	2,044	1,925	119
1910	2,790	2,473	317
1913	3,436	3,094	342

* Budget figures are taken from the yearbooks of the Russian Ministry of Finance.

The extraordinary expenditures for which these surpluses were used covered special military needs; the construction, purchase or extension of railroad lines; the improvement of port facilities; special industrial and agricultural subsidies; and similar items. War expenditures also went into the extraordinary budget.[1]

The ordinary budget surpluses were not as a rule sufficient to cover the total of the extraordinary expenditures. The deficiency was made up by loans and out of treasury funds. In Russian official reports, the proceeds from loans and the sums transferred from

[1] Ozerov, I., Osnovy Finansovoy Nauki (Elements of Finance), vol. 2, pp. 35 ff., 1914.

treasury funds were entered as extraordinary revenue, as a result of which the total budget often not only balanced, but showed a surplus, whereas in reality there was a considerable deficit.

In the table on page 50, showing the Russian budgetary situation for the twenty-year period preceding the war, only real revenues—i.e., revenue from sources other than borrowing—are included under the head of "receipts," so that the difference between the total receipts and the total disbursements represents the actual deficit or surplus for each year. (See also fig. 4, p. 51.)

The deficits prior to 1905 were due to the magnitude of extraordinary expenditures necessitated by the introduction of financial and economic reforms, particularly the establishment of the gold standard and the construction of railroads. The relation of railroad construction both to Russia's foreign credit and to her budgetary deficits is especially interesting. As noted in Chapter III, Russia's political credit was never very strong and it was difficult for the government to borrow abroad sufficient sums to meet its requirements. The government therefore sought to create, through the development of railroads and the issue of bonds secured by railroad property, a type of security which would command the confidence of foreign investors. In this way the need of foreign credits with which to meet external obligations directly stimulated domestic expenditures for construction purposes. The huge outlays of money involved in developing the railroads thus created a heavily overburdened extraordinary

RUSSIAN BUDGETS, 1895–1913

(In millions of roubles)

Year	Receipts other than borrowing			Disbursements			Surplus (+) or deficit (−)	Deficit met by	
	Ordinary	Extraordinary[a]	Total	Ordinary	Extraordinary	Total		Bond issues	Treasury surplus
1895	1,244	6	1,250	1,129	383	1,512	− 262	156	106
1896	1,369	18	1,387	1,229	255	1,484	− 97	26	71
1897	1,416	11	1,427	1,300	196	1,496	− 69	32	37
1898	1,585	10	1,595	1,358	414	1,772	− 177	78	99
1899	1,673	5	1,678	1,464	322	1,786	− 108	179	
1900	1,704	4	1,708	1,555	334	1,889	− 181	29	152
1901	1,799	7	1,806	1,665	209	1,874	− 68	157	
1902	1,905	5	1,910	1,902	365	2,267	− 357	197	160
1903	2,032	[b]132	2,164	1,883	165	2,048	+ 116		
1904	2,018	[c]	....	1,925	388	2,313	[d]− 295		
1905	2,044	4	2,048	1,925	1,280	3,205	−1,157	790	367
1906	2,289	7	2,296	2,061	1,152	3,213	− 917	1,077	
1907	2,372	7	2,379	2,196	387	2,583	− 204	136	68
1908	2,443	12	2,455	2,388	269	2,657	− 202	189	13
1909	2,542	14	2,556	2,451	156	2,607	− 51	149	
1910	2,790	24	2,814	2,473	124	2,597	+ 217		
1911	2,974	16	2,990	2,536	310	2,846	+ 144		
1912	3,124	7	3,131	2,722	449	3,171	− 40		40
1913	3,436	17	3,453	3,094	289	3,383	+ 70		

* The figures for the ordinary revenues, ordinary expenditures, and extraordinary expenditures are taken from the official budget statements. The figures for extraordinary revenue are obtained by subtracting from the total of extraordinary receipts for each year, as shown in the budget statements, the amounts obtained as a result of loans and by transfers from the Treasury surpluses.

[a] The extraordinary revenues were derived mainly from repayments to the government of advances made to banks, railroads, etc., and from perpetual deposits in the Russian State Bank.

[b] Of this amount, 127 million roubles are represented by unusually large repayments to the government of loans made to private railroads and banks.

[c] No detailed statement of extraordinary receipts for 1904 is available.

[d] Omitting extraordinary revenue.

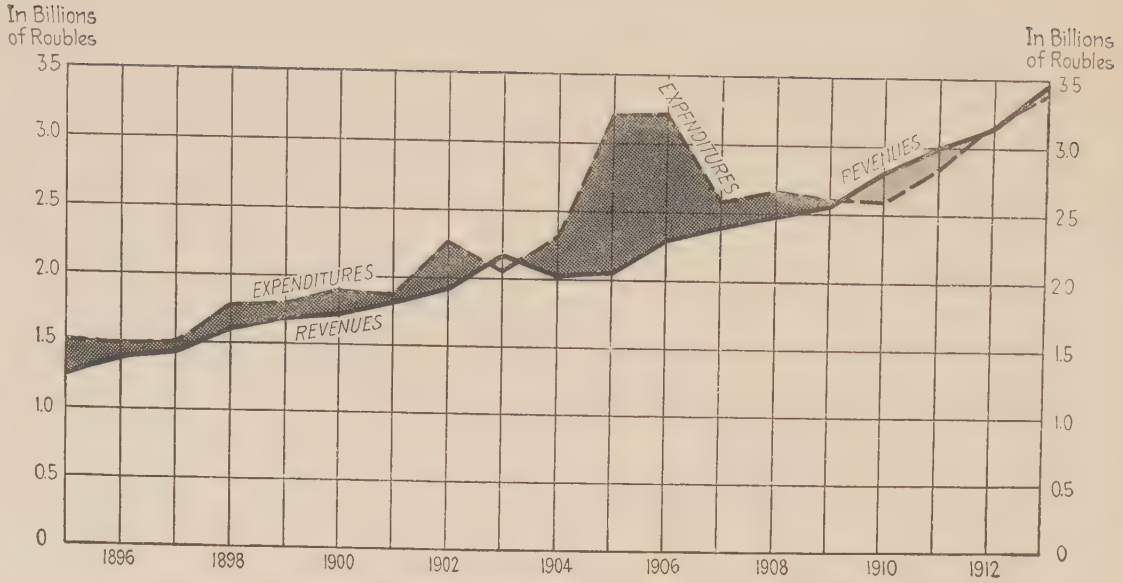

FIGURE 4.—RUSSIA'S BUDGET EXPENDITURES AND REAL REVENUES, 1895–1913.

budget and necessitated large domestic loans. But it is interesting to note that while debts were piling up at home and abroad an important feature of Russia's economic development was being promoted.[1]

The war with Japan naturally caused very large expenditures, and the heavy deficits of 1904–06 are directly attributable to it. The increased indebtedness resulting therefrom, of course, permanently increased the annual interest charges included in the ordinary budget.

In only four years in the entire twenty-year period was the Russian budget really balanced, with real receipts exceeding the total disbursements and no recourse being made to further borrowing. These were the years 1903, 1910, 1911, and 1913. The first year the surplus was due to causes noted in connection with the table on page 50, and the last three years it resulted from a growth of taxation revenues.

The Russian budget included the gross receipts and expenditures of state enterprises. Inclusion of the accounts of such huge enterprises as the railroads and the liquor monopoly made the Russian budget one of the largest in the world. The gross receipts from these two enterprises represented fully one-half of the total revenue.

The following table shows the various classes of revenue in 1913, with the percentage relation of each class to the total:

[1] Migulin, P., Russian State Credit, p. 488 ff., 1899–1903.

RUSSIA'S TOTAL REVENUES IN 1913*

Class	Millions of roubles	*Percentage of total*
I. Direct taxes	**273**	***7.9***
II. Indirect taxes and duties	**939**	***27.2***
III. State enterprises and properties	**2,073**	***60.0***
Liquor monopoly	899	
Railroads	814	
Post, telegraph, and telephone	120	
Forests	92	
All others	148	
IV. Miscellaneous and extraordinary	**168**	***4.9***
Total	**3,453**	***100.0***

* Figures from Yearbook of the Russian Ministry of Finance, 1915; percentages deduced by us.

The relationship between the various groups of revenues in 1913, as it appears in this table, was characteristic of all the years from 1895 to 1913. In 1903, for example, the direct taxes brought in 6.6 per cent of the total revenue; the indirect taxes and duties, 26.9 per cent, and the state undertakings and properties, 62.4 per cent.[1]

On its disbursement side, the Russian budget was drawn up according to the so-called "ministerial" system, which means that all the outlays were allocated on the basis of estimates submitted by each department of government. However, in our classi-

[1] Russia: Its Trade and Commerce, p. 333, 1918.

fication of expenditures (see table, p. 55) the outlays for the various state undertakings are taken, so far as possible, out of the ministerial budgets and are brought together in a separate group; for example, the outlays for the management of the liquor monopoly, the control of which is officially under the Ministry of Finance, has been deducted from the expenditure for the latter. In this manner we obtain the percentage relationships between principal classes of expenditures in the ordinary and the extraordinary budgets shown in table on page 55.

This table does not identify capital expenditures, except such as are entered under class IV. As a matter of fact, however, each of the first three groups contains some such expenditures. For example, the purchase of rolling stock for the railways is included in the ordinary budget. The total amounts spent for capital or strictly productive purposes probably aggregated no less than 12 per cent of the total budget.[1]

Of the two great enterprises conducted by the government, the liquor monopoly was highly profitable, and the railroads were not. The sale of drinks in 1913 brought in a profit of over 600 million roubles, which went into the general resources of the state. The state railroads, on the other hand, were usually run at a deficit, a fact which is not at once apparent from the government's accounts, since neither the investment nor the extension costs were included in the budget figures of expenditures.

[1] Cf. Ozerov, I., Oborotnaya Storona Nashego Budgeta (The Reverse Side of Our Budget), p. 7, Moscow, 1911. Also, Russia: Its Trade and Commerce, p. 331, 1918.

RUSSIA'S TOTAL EXPENDITURES IN 1913 *

Class	In millions of roubles	*Per cent of total*
I. General administration	**864**	*25.5*
Imperial court	17	
Higher institutions of state	9	
Holy Synod	46	
Ministry of Finance	227	
Ministry of Interior	105	
Ministry of Justice	91	
Ministry of Foreign Affairs	11	
Ministry of Trade and Industry	65	
Ministry of Agriculture	136	
Ministry of Education	143	
State control	12	
Miscellaneous	2	
II. Military	**962**	*28.4*
War (ordinary)	581	
War (extraordinary)	136	
Navy	245	
III. State undertakings	**979**	*28.9*
Transportation[a]	641	
Liquor monopoly	255	
Post, telegraph, and telephone	80	
State studs[b]	3	
IV. State capital expenditures	**154**	*4.6*
Railroad extensions and improvements	136	
Ports	18	
V. Payments on the state debt	**424**	*12.6*
Interest	389	
Principal	30	
Redemption of floating loans without fixed maturity	3	
Banking charges, etc	2	
Grand total	**3,383**	*100.0*

* Figures taken from Yearbook of the Russian Ministry of Finance, 1915; percentages deduced by us.

[a] Besides the railroads and waterways, which yielded revenue, this also includes public highways.

[b] Maintained by the government mainly for the purpose of keeping the country supplied with good horses.

In 1913, which was the last peace-year,[1] expenses for the maintenance of the army and the navy exceeded considerably the total administrative expenditures. Payments on account of the state debt comprised nearly 13 per cent of the total disbursements, only one-fourteenth of this sum representing reduction of principal.

In the decade immediately preceding the war, Russia was striving hard to get and maintain a balanced budget. The whole fiscal policy of the government was motivated by a determination to keep extraordinary expenditures within the spending capacity provided by real revenues, and thus to avoid contracting new debts. The growth of the debt to foreign countries during the preceding decade and the increasing difficulties in meeting payments on it had begun to frighten the government; and yet the pressing needs of the general situation still required enormous outlays in the extraordinary budget. During the years 1904–13, the principal extraordinary expenditures, in millions of roubles, were as follows:[2]

Russo-Japanese war	2,442
Railways (construction, purchase, etc.)	886
Construction of ports	24
State defense (fortresses, recquipment of the army, etc.)	455
Military operations in Persia and China	20
Redemption of loans before date of expiration	199
Famine aid	403

If we omit the expenditures for the Russo-Japanese war and the military operations in Persia and China,

[1] Before the war the Russian fiscal year coincided with the calendar year.

[2] Russia: Its Trade and Commerce, p. 331, 1918.

the extraordinary expenditures averaged during this ten-year period 229 million roubles a year. The ordinary budget surpluses, meanwhile, averaged 226 million roubles. In other words, had it not been for the Russo-Japanese war, the budgetary situation in Russia would have been entirely satisfactory. Extraordinary expenditures would have occasioned no new borrowing. Because of the war, however, Russia's national debt increased during this period both at home and abroad.

Count V. N. Kokovtsev, who was minister of finance through this decade, was fond of describing his fiscal policies as being in correspondence with the popular adage, *Protyaguivay nozhki po odyozhke* (Don't stretch your limbs more than your clothes will allow). By that he meant that Russia's economic development, from the point of view of the effect that fiscal policies might have upon it, could proceed only as fast as the means would be provided for it by actual revenue.[1]

These fiscal policies were often criticized in both houses of the Russian Parliament (the Council of State and the Douma). The critics were particularly insistent on the need of making government appropriations an instrument of a much more rapid and effective economic development within the country than seemed desirable to the Minister of Finance. They argued that although government revenues were increasing very rapidly following the Russo-Japanese war, adequate provision was not

[1] Cf. The Explanatory Memorandum to the Draft Budget for 1909, etc.

being made for the really vital needs of the country. They contended that the outwardly satisfactory budget really rested on the precarious foundation of an overtaxed but restricted internal market, for the extension of which too little was being done by the state.

It is difficult to decide the merits of this controversy. The Finance Minister was primarily concerned with maintaining a balanced budget and with meeting current foreign obligations, lest the whole international credit structure should crumble. He was confronted with an immediate pressing situation. His critics, on the other hand, less concerned with (or at least, less responsible for) the immediate condition of the budget and the balance of payments, pointed out that in the long run it would be better to follow the policy of getting out of debt by going more heavily into debt meanwhile. That is to say, if internal developments were stimulated through the medium of new foreign loans, the increased domestic production would eventually provide the means both for balancing the budget and for meeting the increased foreign payments.

II. THE BUDGET SINCE 1914

Under the Constitution of the Russian Empire (Article 117) no expenditures for war or for special military preparations were subject to approval by the Parliament. Such expenditures were authorized directly by the Emperor. In accordance with this provision, the Russian state budget continued to be

drafted during the years of the war in the same manner as before 1914.

One important change in the Russian state budget was introduced by the war. Immediately after the opening of the hostilities, the sale of alcoholic beverages was forbidden in Russia, and the state liquor monopoly was abolished. This took away the largest single item of revenue and necessitated increases in other forms of revenue to make up for the loss. It was not until 1917 that this loss could be completely covered. The following table shows the state budget for the years of the war in millions of roubles:

STATE BUDGETS FOR YEARS OF WAR, 1914–16 *

(In millions of paper roubles)

Year	Revenue (other than borrowing)	Ordinary expenditures	Deficit in ordinary budget	War expenditures	Total deficit
1914	2,961	3,391	430	1,656	2,086
1915	2,898	3,408	510	8,815	9,325
1916	4,154	4,236	82	14,553	14,635

* Shingaryov, A. L. (Minister of Finance in the Provisional Government), Russia's War Finance: Russian Review, New York, April, 1918. These figures are in paper roubles.

Prof. S. N. Prokopovich, in a memorandum prepared for the Institute of Economics, estimates the depreciation of the paper rouble, in terms of internal purchasing power, as follows:

	Per cent of par
1914. Second half	81.5
1915. First half	80.3
Second half	66.2
1916. First half	61.1
Second half	60.9
1917. First half	54.0
Second half	34.6

It will be seen that by the end of 1916 the Russian government had practically succeeded in balancing the nonwar budget. This was accomplished by the following means: increasing real estate and industrial taxes; raising practically all the indirect taxes on articles of consumption; levying new excise duties and introducing a special duty on railroad fares; raising the postal and telegraph rates and levying a new tax on telephones; and introducing war profits and income taxes.

The budget estimate for 1917 called for total ordinary and war expenditures amounting to about 24 billion roubles. During the revolution, however, the actual expenditures for the year amounted to no less than 40 billion paper roubles.

From 1918 on, the Russian state budget practically ceased to exist. It was not until 1922 that the Soviet government, following the reintroduction of trade on a money basis, made the first attempts to reestablish the state budget.

III. THE FUTURE BUDGET

A state budget differs from a private one in that it begins with an estimate of probable expenditures and then seeks the means for meeting these requirements. Accordingly any analysis of the probable future of the Russian budget must necessarily start with a consideration of indispensable expenditures. Before considering what is involved for Russia, in a budgetary way, in meeting payments on foreign debts, it is necessary to turn to her indispensable domestic budgetary requirements.

In order to function as a nation, Russia must provide for certain indispensable domestic state expenditures. As elsewhere in this study, we shall proceed on the assumption that Russia is to regain economic stability; otherwise the entire discussion would be futile. From the point of view of fiscal policies this means that Russia will again be a national entity, with a central government, a national budget, and a single monetary system, whatever may be the new organization of the component parts of the country. In order to determine what these minimum budgetary requirements are likely to be in a recovered Russia, we shall take the figures for 1913 as our point of departure and see what permanent changes are likely to occur in the various items of expenditures.

The expenses of general administration can not be much less than they were before the war. It is true that such items as the imperial court and the holy synod will drop out, but a part of the sums formerly spent on these bodies will, sooner or later, go into other state needs. At the same time some of the others (education, agriculture, etc.) must increase if recovery is to be effected and maintained.

The expenditures for state undertakings and the special productive expenditures of the government are also likely to remain at least where they were in 1913. The expenses of the liquor monopoly will drop out (unless the monopoly is reestablished) but in that case an extensive apparatus would have to be created for collecting the spirits tax. On the other hand, the expenses of the various branches of transportation and communication are bound to increase.

If an appreciable contraction of expenditures is possible it must come under the head of military disbursements. In 1913 Russia spent 962 million roubles for the ordinary and special needs of her army and navy. It is inconceivable that she will continue spending such enormous sums for these purposes. If this amount is cut to on -quarter, the reduction amounts to 722 million roubles

A further contraction will result from the separation from Russia of Poland and Finland, the expenditures for which in 1913 amounted to no less than 200 million roubles.[1] These two principal reductions in expenditures would decrease the budget as of 1913 by 922 million roubles.

The internal debt has practically disappeared because of currency depreciation. The monetary situation brought about by the inordinate issues of paper money by the Soviet government makes this internal indebtedness negligible at the present time. It is quite possible that in any scheme of currency stabilization through which Russia will have to pass, the internal state debt will be almost completely wiped out. For the purposes of our analysis we shall assume that the domestic debt is henceforth nonexistent. The foreign debt, however, remains.

The state debt in 1913 was, roughly, 8.8 billion roubles, of which a little over one-half was internal debt. The total payments on account of the debt amounted to 424 million roubles during that year.

[1] Yearbook of the Russian Ministry of Finance, 1915, pp. 69–75. Poland and Finland only are taken into account, since the status of the other Baltic states can scarcely be considered as definitely settled.

The state debt increased during the war to a total of over 35 billion roubles, not counting paper money. Of this amount, at least 13 billion roubles represent foreign obligations. The payments on it will amount to about 640 million roubles annually, if Russia is to assume all her foreign obligations. If she is also to receive and pay interest on new loans of, say, 3 billion roubles—either as a direct state loan or as private issues guaranteed by the state—this sum will be increased to 880 million roubles. (See p. 46.)

Assuming then (1) that in her reduced territory Russia keep her nonmilitary state expenditures no larger than they were in 1913; (2) that she reduce her military expenditures as of that year by three-quarters; (3) that all payments on domestic debts disappear; (4) that she assume payments on all her foreign state debts, and (5) that she incur new interest-bearing obligations aggregating 3 billion roubles—on these assumptions Russia's budgetary disbursements would have to be somewhat as follows:

RUSSIAN BUDGETARY DISBURSEMENTS

(In millions of roubles)

	1913	Future
General expenditures	2,959	[a]2,000
Payments on state debt	424	880
Total	3,383	2,880

[a] In round figures.

While these figures necessarily involve some conjecture, it may be possible for Russia to keep all her state expenditures within the 3-billion-rouble limit, assuming no additional internal interest charges arise in consequence of new loans. How would she be able to cover this sum?

Russian revenue before the war was derived chiefly from taxation on consumption. In 1913 Russia's real revenue amounted to 3,450 million roubles.[1] This amount, as we saw above, was made up principally of the gross receipts from state undertakings and properties (60 per cent) and indirect taxes and duties (27.2 per cent). The direct taxes furnished less than 8 per cent of the total revenue. (See table, p. 53.) The chief sources of revenue were the state liquor monopoly, excise duties on sugar, tobacco, matches, and kerosene, and customs duties on imported goods. The possibility of future large revenues from these sources will depend upon the conditions of the general purchasing capacity of the people, which of course determines consumption and consequently the fiscal results of the indirect tax levies.

Any discussion of Russia's tax-paying power must be based on the assumption that the nation will gradually recover her economic equilibrium. When this is accomplished it will be revealed that certain important changes in the internal consumption of the country have occurred. By comparison with pre-war conditions, the purchasing capacity of the

[1] Of this revenue, 254 millions roubles were supplied by Poland and Finland.

peasantry, so far as the necessities of life are concerned, ought to increase, because of the agrarian changes that have given the peasants larger holdings of land. This will perhaps be only partly offset by the reduced consumption of former landowners,[1] and by the general reduction in population.

At the same time, there seems every likelihood that in the future Russian budgets there will be new state sales monopolies, made necessary by fiscal considerations and as means of combating profiteering. The idea of such fiscal monopolies for Russia is not new; several projects were discussed by the imperial government during the war, and some of them were carried out by the provisional government and the Soviet regime. Sugar, salt, tobacco, and matches are among the articles of general consumption the sale of which may be made into fiscal monopolies. The liquor monopoly may be resumed or a spirits tax introduced to take its place. The yield from this source, however, may not be as enormous as it was before the war, for even then important movements were under way for a curtailment of the consumption of liquor.

Altogether, conditioned upon Russia's recovery, the yield of consumption levies may be approximately what it was before the war.

Direct taxation may be expected to yield no less than it did before the war. It consisted principally of land taxes and trade and industrial licenses. The land tax was never equitably distributed, the landed

[1] For further discussion of this important subject, see Chapter VII.

estates bearing but a very small share. With the land likely to remain in the hands of the peasantry, the yield of the land taxes may be increased. An income tax and an excess-profits tax may, possibly, appear in the future Russian budget.

Taking all these factors into account, it seems possible that the revenue of future Russia may reach a figure approximating the 3 billion annual requirements, which we outlined above. This means that the total revenues may possibly equal those of 1913, less the amounts furnished by Poland and Finland. All this, it must be repeated, is conditioned on a rather speedy economic recovery of the country —a recovery which depends upon a substantial stabilization of Russian currency and an efficient application of whatever loans may be extended to Russia for the reconstruction of her industries, agriculture, and transportation.

Russia's fiscal recovery, then, may be expected to keep pace with her internal economic recovery. Owing to the disappearance of the domestic debt, Russia may in time—though the task will not be easy find it possible to obtain sufficient funds to meet the necessary payments on a substantial portion of her foreign obligations. Thus, of the two requirements for making international payments, the internal fiscal problem is not impossible of solution. More difficult, in the future as in the past, is the problem of finding the means for making domestic revenues available in the foreign creditor countries.

CHAPTER V

RUSSIA'S FOREIGN TRADE RELATIONS

We come now to the foreign trade aspect of Russia's problem in meeting her external obligations in the future. We have examined the outlook for Russia's state budget and reached the conclusion that, given certain fundamental conditions, the Russian government may eventually find itself able to obtain, by means of domestic revenues, the sums necessary for meeting a very considerable portion of its foreign obligations. These sums will come into the treasury in roubles, or in such other currency as Russia may have. But will Russia find it possible to convert these domestic budgetary surpluses into foreign currencies acceptable to her creditors?

Russia can not pay foreign debts by exporting gold. In fact, Russia has need of gold imports, if the gold standard is to be restored. The huge reserves that were accumulated in pre-war years, it will be recalled, have been practically exhausted as a result of post-war policies and conditions. Domestic production is insufficient for a rapid accumulation of a gold reserve adequate for a standard monetary system.

Russia's only means of meeting foreign obligations

is through the development of an export surplus. The only way in which the Russian government can, year after year, convert the surpluses obtained as revenue within the country into the foreign currencies which alone are acceptable in meeting foreign debts, is by purchasing from Russian exporters the bills of exchange which represent their claims to foreign money. These bills can then be presented to the foreign banks on which they are drawn and exchanged for the foreign money needed in meeting interest or other obligations.

As has already been shown (p. 25), however, Russian exports must also provide the means of paying for imports and for various services rendered to Russia by foreigners. Consequently, if we are to appraise Russia's ability to develop a large debt-paying capacity abroad, we must make a careful study of the whole Russian trade problem. This will be the purpose of Chapters V, VI, and VII. In the present chapter we shall consider: (1) The general character of Russia's pre-war export and import trade; and (2), its distribution by countries. In Chapter VI we shall discuss Russia's export capacity, and in Chapter VII we shall examine the volume and character of Russia's import requirements. We shall then be in a position to answer, in Chapter VIII, the third of the fundamental questions enumerated in the Introduction: What is involved for Russia in making her budgetary surplus available abroad for the purpose of meeting payments on her foreign obligations and what is her probable capacity to make such payments?

I. PRE-WAR CHARACTER OF IMPORTS AND EXPORTS

The twenty-year period immediately preceding the World War marked the real development of Russia's foreign trade. At the beginning of that period, Russia gave up her traditional policy of tariff isolation and entered the rapidly developing system of tariff conventions, which opened up to

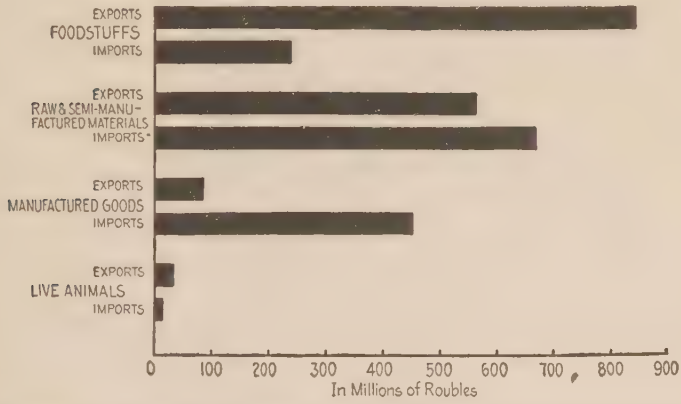

FIGURE 5.—RUSSIA'S EXPORTS AND IMPORTS IN 1913 BY CLASSES OF COMMODITIES.

her important opportunities in European markets. After the difficulties encountered in the nineties she found it possible to command new outlets for her exports. Although her imports continued to increase, due to expanding home needs, the growth of her exports was sufficiently rapid to give her in many years a substantial favorable balance of trade. In spite of violent fluctuations in the trade balance, as shown in the above chart (fig. 5), the favorable

balances during some of the years immediately preceding the war reached heights unprecedented in the whole history of Russian foreign trade.

Russia's exports were chiefly the product of her extractive industries, of which agriculture was the most important. The following table shows the principal Russian exports for the year 1913:

VALUE OF RUSSIA'S EXPORTS IN 1913 *

Classes of exports	Millions of roubles	*Percentage of total*
Foodstuffs	840	*55.3*
Raw and semimanufactured agricultural products	243	*16.0*
Live stock	34	*2.2*
Timber and its products	165	*10.8*
Other raw and semimanufactured materials	153	*10.1*
Manufactured goods	85	*5.6*
Total	1,520	*100.0*

* The trade statistics for this part of the study are taken from the Review of Russian Foreign Trade; the Yearbook of the Russian Ministry of Finance; and the Statistical Abstracts for the Principal and Other Foreign Countries.

Taking the first three of these classes, we find that nearly 74 per cent of the value of Russia's total exports in 1913 consisted of agricultural products. Farm exports, in the order of their importance, were as follows: cereals (principally wheat and barley), eggs, butter, sugar, flax, seeds, hides, and skins. The class next in importance was timber, chiefly in the form of boards, logs, and pulp. In the

class of nonagricultural, raw, and semimanufactured materials, the commodity of most importance was petroleum. Over half of the class of manufactured goods was represented by cotton textiles.

The largest class of Russia's imports consisted of raw materials and semimanufactured goods. In order of importance, the other classes were as follows: manufactured articles, foodstuffs, and live animals. The table below shows the value of each class and its relation to the total in 1913:

VALUE OF RUSSIA'S IMPORTS IN 1913

Classes of imports	Millions of roubles	*Percentage of total*
Raw and semimanufactured materials	668	*48.6*
Manufactured goods	451	*32.8*
Foodstuffs	238	*17.3*
Live animals	17	*1.3*
Total	1,374	*100.0*

Machinery of various kinds was the largest single item of import; then came raw cotton, wool, and silk; oils and chemicals; coal and coke; textiles; tea; etc.

The total Russian imports were ordinarily equal in volume to between 75 and 80 per cent of the exports. In 1913, however, when imports were exceptionally heavy, they amounted to 90 per cent of the exports.

Russia is ordinarily regarded as an exporter of foodstuffs and raw materials and an importer of

manufactured goods. This characterization, however, as shown by the two tables above, is not entirely correct. It is true that the largest item in her exports was foodstuffs, followed by raw and semimanufactured materials. But the first place in her imports was occupied by raw and semimanufactured materials rather than by finished products. In 1913 raw and semimanufactured materials constituted 48.6 per cent of the total imports and finished products only 32.8 per cent. During that year Russia imported more raw and semimanufactured materials than she exported, the value of her imports in this class being 668 million roubles and of her exports 561 millions.

The metallic ores, the fuel, the chemicals, the fibrous materials which comprised this class of Russian imports were indispensable to the operation of her industries. Equally vital to her production, both industrial and agricultural, were the imports of machinery and implements of all kinds.[1]

Russian foreign trade varied little in character from year to year. During the twenty-year period preceding the war, for example, there was remarkably little variation in the commodity composition of the exports and the imports. The following table shows the percentage relationship in certain years of the value of each of the four general classes of exports and imports to the total exports or imports:

[1] Further discussion of this question will be found in Chapters VI and VII.

COMPOSITION OF RUSSIAN FOREIGN TRADE, 1894–1913

(Percentage relation of each class of exports or imports to total exports or imports for the year)

Year	Foodstuffs		Raw and semi-manufactured materials		Manufactured goods		Live animals	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1894	56.9	18.4	37.5	54.4	3.6	26.5	2.0	0.7
1898	52.5	16.6	40.3	48.3	4.8	34.5	2.4	0.6
1903	61.3	20.1	31.9	52.5	4.8	26.6	2.0	0.8
1908	54.4	23.2	37.8	47.6	5.3	28.4	2.5	0.8
1913	55.3	17.3	36.9	48.6	5.6	32.8	2.2	1.3

Foodstuffs have continuously played an overwhelming rôle in Russian exports, and raw and semi-manufactured materials have persistently constituted the largest class in her imports.

II. DISTRIBUTION OF RUSSIAN TRADE BY COUNTRIES

While the commodity composition of Russian foreign trade during the twenty-year period preceding the war showed no tendency toward marked changes, the geographical direction of the trade during this period underwent an almost complete transformation. This is especially true of the import trade.

The principal countries with which Russia traded may be divided roughly into six geographic groups. The export and import trade with each of the groups may be seen from the table (p. 74), which shows the changes at the end of the first and second decades of the period we are considering.

GEOGRAPHICAL DISTRIBUTION OF RUSSIAN FOREIGN TRADE, 1894, 1903, AND 1913

(In millions of roubles)

Country of source or destination	Exports			Imports		
	1894	1903	1913	1894	1903	1913
I. Central Europe [a]	**241**	**371**	**696**	**176**	**280**	**709**
Germany	148	233	454	143	242	652
The Netherlands [b]	53	101	177	6	11	21
Austria-Hungary	40	37	65	27	27	36
II. Western Europe [a]	**285**	**394**	**508**	**190**	**159**	**256**
United Kingdom	175	218	268	133	114	173
France	56	76	101	26	28	57
Italy	27	57	74	14	11	17
Belgium	27	43	65	17	6	9
III. Northern Europe [a]	**28**	**95**	**109**	**29**	**41**	**91**
Denmark	4	27	36	2	6	13
Norway	5	11	7	3	7	10
Sweden	4	10	11	5	5	17
Finland	15	47	55	19	23	51
IV. Southeastern Europe [a]	**29**	**44**	**65**	**11**	**10**	**21**
Turkey	16	19	36	7	7	18
Roumania	8	16	22	2	2	1
Greece	5	9	7	2	1	2
V. Near and Far East [a]	**19**	**55**	**99**	**71**	**95**	**139**
China	5	22	31	39	56	84
Persia	12	27	58	11	26	44
Japan	....	1	1	....	3	5
Egypt	2	5	9	21	10	6
VI. North and South America [a]	**2**	**5**	**14**	**48**	**65**	**80**
United States	2	5	14	46	63	79
Brazil	....	....	....	2	2	1
VII. All others	**68**	**37**	**29**	**37**	**32**	**78**
Grand total	**672**	**1,001**	**1,520**	**562**	**682**	**1,374**

[a] The totals in these groups include only the principal countries; the less important countries in each group are included under "All others."

[b] The Netherlands are included in this group because a large part of Russia's exports to that country was destined for Germany.

Central Europe was becoming increasingly important in the trade of Russia just prior to the war. This fact is clearly revealed by the table and by the chart (fig. 6). It becomes still more apparent, if we consider the various geographical groups in terms of their percentage relations to the total.

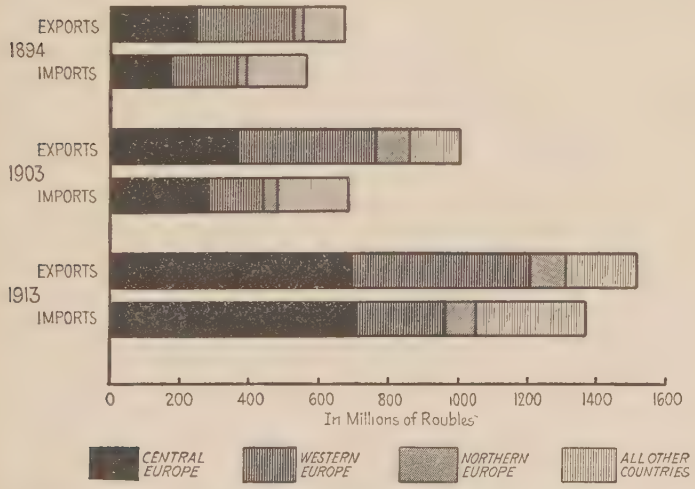

FIGURE 6. GROWING IMPORTANCE OF CENTRAL EUROPE IN RUSSIA'S PRE-WAR FOREIGN TRADE.

In 1894 the first three groups, Central, Western, and Northern Europe, took 82.4 per cent of Russia's total exports for that year and furnished her with 70.3 per cent of her total imports. These two totals were made up as follows: Central Europe: exports 35.8, imports 31.3; Western Europe: exports 42.4, imports 33.8; Northern Europe: exports 4.2, imports 5.2.

Ten years later, in 1903, the same groups took 85.9 per cent of Russia's total exports and furnished her with 70.4 per cent of her imports. But the relation among the groups themselves underwent a change. Western Europe still held the first place, so far as Russian exports were concerned. The countries of this group took 39.4 per cent of Russia's total exports, while those of the Central European group took 37.1 per cent, and those of the Northern European group, 9.5 per cent. The Western European group, however, lost its first place as the source of Russian imports. The countries of that group furnished Russia with only 23.3 per cent of her total imports, as against 41.1 per cent for the countries of the Central European group and 6.0 per cent for the Northern European group.

The decade which followed witnessed still greater changes in the same direction. The countries of the three groups took, in 1913, 86.4 per cent of Russia's exports (practically the same portion of the total as ten years before) but sold to Russia 76.8 per cent of her imports, or a little more than in 1903. During the last year before the war, the predominance of Central Europe, both as a buyer and as a seller, in the world's trade with Russia became still more pronounced. In that year, Central Europe took 45.8 per cent of Russia's exports; Western Europe took 33.4; and Northern Europe 7.2. At the same time, Central Europe furnished 51.6 per cent of Russia's total imports, while Western Europe furnished her with only 18.6 per cent and Northern Europe with 6.6.

The table given below shows the various percentage changes at a glance.

CHANGING RELATIONSHIPS IN RUSSIA'S EUROPEAN TRADE

(Data shown as percentages of total foreign trade)

Source or destination	Exports			Imports		
	1894	1903	1913	1894	1903	1913
Central Europe.....	35.8	37.1	45.8	31.3	41.1	51.6
Western Europe.....	42.4	39.4	33.4	33.8	23.3	18.6
Northern Europe.....	4.2	9.5	7.2	5.2	6.0	6.6
Total of three groups	82.4	85.9	86.4	70.3	70.4	76.8

This relationship is, naturally, only approximate. A part of Germany's imports from Russia, for example, was used by her for reexports to other countries, while similarly a part of her exports to Russia was really reexports of her purchases in other countries. Russia's exports to the Netherlands were destined largely for Germany. There is no doubt, however, that there was a marked tendency toward a relative increase of trade with Central Europe, particularly Germany.

Germany held the first and Great Britain the second place in both the export and the import trade of Russia. Germany was the largest market for Russian foodstuffs and raw and semimanufactured materials, purchasing them either directly or through Holland and Finland. At the same time she sold to Russia

three-quarters of all the metal ores and products and over half of all the textile materials imported by the latter. Russian imports of chemicals came almost exclusively from Germany, and a considerable part of her imports of fuels and of finished products also came from there.

The United Kingdom was the second largest purchaser of Russian foodstuffs and raw materials and held second place as a seller to Russia of the principal raw and semimanufactured materials and of finished goods. The United Kingdom was also the largest source of Russian imports of fuel, principally coal.

The trade of other European countries was comparatively small. None held nearly the importance of Germany or the United Kingdom trade. Italy was a large market for Russian foodstuffs, but her sales in Russia were very small and consisted mostly of fibrous materials and textiles. France was a considerable purchaser of both foodstuffs and raw materials, and she furnished Russia with textile materials and some metal products. Belgium, Austria-Hungary, and Denmark also took substantial quantities of Russia's principal exports, though these countries sold little to Russia.

Russia's trade with America and Asia was comparatively small. While the United States and China stood high in the list of sellers to Russia (China standing third and the United States fourth), both were far down in the list of the purchasers of Russian exports. Russia bought directly from the United States considerable quantities of machinery, cotton, and fuel, and sold to it small quantities of

raw materials. China's principal contribution to Russian imports was tea, while her purchases from Russia consisted mainly of textiles and other finished products.

III. RUSSIA'S DIRECT TRADE WITH HER PRINCIPAL PRE-WAR CREDITORS

Having traced the general outlines of the development of Russian foreign trade during the twenty-year period preceding the war and having sketched the picture of Russia's principal markets and sources of imports at the end of that period, we can now turn to an examination of Russia's direct trade with her principal pre-war creditors, France, the United Kingdom, Belgium, and Germany. Russia's direct trade with these four countries is given in the accompanying table (pp. 80-81).

From 1894 to 1913, Russia's trade balance with the principal countries of Europe was nearly always favorable. In other words, Russia sold to these countries much more than she bought from them. The difference between the two figures (exports and imports) was very considerable. In the case of France, for example, the value of imports from Russia was about twice the value of exports to Russia. We find a similar situation with Great Britain, especially during the last decade before the war. In the case of Belgium in certain years the value of imports from Russia was eight times that of exports.

It is true that in the case of Germany we find the balance often turning against Russia. But even here we get quite a different picture if we combine

RUSSIA'S DIRECT TRADE WITH HER PRINCIPAL CREDITORS

(In millions of roubles)

Year	Exports from—	Imports to—	Balance in favor of (+) or against (−) Russia
A. RUSSIA–FRANCE:			
1894	56	28	+ 28
1897	64	28	+ 36
1900	57	31	+ 26
1903	76	28	+ 48
1906	77	29	+ 48
1909	89	50	+ 39
1910	94	61	+ 33
1911	91	57	+ 34
1912	98	56	+ 42
1913	101	57	+ 44
B. RUSSIA–UNITED KINGDOM:			
1894	175	133	+ 42
1897	151	115	+ 36
1900	146	127	+ 19
1903	218	114	+104
1906	225	106	+119
1909	289	128	+161
1910	315	154	+161
1911	337	155	+182
1912	328	142	+186
1913	268	173	+~95

RUSSIA'S DIRECT TRADE WITH HER PRINCIPAL CREDITORS—

Continued

Year	Exports from—	Imports to—	Balance in favor of (+) or against (−) Russia
C. RUSSIA–BELGIUM:			
1894.....	27	17	+ 10
1897.....	33	24	+ 9
1900.....	23	9	+ 14
1903.....	43	9	+ 34
1906.....	41	7	+ 34
1909.....	64	7	+ 57
1910.....	67	7	+ 60
1911.....	55	7	+ 48
1912.....	59	8	+ 51
1913.....	65	9	+ 56
D. RUSSIA–GERMANY:			
1894.....	148	143	+ 5
1897.....	175	202	− 27
1900.....	188	217	− 29
1903.....	233	242	− 9
1906.....	285	298	− 13
1909.....	387	363	+ 24
1910.....	391	450	− 59
1911.....	491	488	+ 3
1912.....	454	532	− 78
1913.....	454	652	−198

the figures for the German–Russian with those for the Dutch–Russian trade, which would be entirely logical, since a considerable portion of Russian exports to Germany went through the Netherlands.

RUSSIAN'S DIRECT TRADE WITH GERMANY AND THE NETHERLANDS COMBINED

(In millions of roubles)

Year	Exports to Germany and the Netherlands	Imports from Germany and the Netherlands	Balance in favor of (+) or against (−) Russia
1894	201	149	+ 52
1897	262	202	+ 60
1900	257	226	+ 31
1903	334	253	+ 81
1906	393	311	+ 82
1909	576	381	+195
1910	587	470	+117
1911	680	506	+174
1912	608	551	+ 57
1913	631	673	− 42

Thus, so far as the countries of Europe were concerned, Russia was able, in almost every instance, to cover all her purchases for imports out of direct exports to each particular country. The only exception was Germany, but there the situation took care of itself through a simple triangular arrangement of payments between Russia, Germany, and the Netherlands.

The "invisible" accounts were settled through roundabout operations. The trade balances in Rus-

sia's favor in each particular country did not always equal the total payments, including interest and service charges, that Russia had to meet there. For example, the balances obtained in the direct trade with France were not nearly sufficient to cover the payments which Russia had to meet there on account of the invisible items in her international payments, while, at the same time, the balances obtained in Great Britain and Belgium were more than ample to provide for the necessary payments in those countries. But the surplus credits created in some countries were made easily available in those in which they were needed, through the system of international banking operations, which was then still intact.

It is interesting to note in this connection that Russia's relations with Western Europe were predominantly financial and with Central Europe just as predominantly commercial. Between 40 and 50 per cent of Russia's direct exports to Western Europe was used for payments on the various debts and for services, while nearly all the Russian exports to Central Europe were utilized in purchasing imports.

CHAPTER VI

RUSSIA'S EXPORT CAPACITY

In order that Russia may regain her position as an important exporter of commodities, it is obviously necessary for her, first, to recover as a producer of those commodities of which she can have an exportable surplus. In the discussion of Russia's pre-war foreign trade relations we found that Russian exports were not particularly varied. Foodstuffs, live animals, and raw and semimanufactured agricultural products constituted nearly three-quarters of Russia's total exports. Timber and its products accounted for about 11 per cent; nonagricultural, raw, and semimanufactured materials 10 per cent; and manufactured goods only 5 per cent of Russian shipments abroad. It is necessary therefore to center attention on the problem of Russian agricultural-exporting capacity.

I. RUSSIAN GRAIN CULTURE AND EXPORTS

Fully one-third of the value of Russia's total exports consisted of the four principal grains grown in the country—wheat, rye, barley, and oats. In the history of the Russian export grain trade the first three of these grains have competed for predominance. Rye, as the principal food staple of the Russian peasantry, has always held the first

place so far as total agricultural production was concerned, and up to the last decade of the nineteenth century it also held a position of predominance in the export trade. Since then wheat has occupied the first position, although in the last few years before the war barley forged ahead very fast.

Russian grain culture, both for internal consumption and for export, received its greatest stimulus after the liberation of the serfs in 1861. For two decades after that the liberated peasants centered all their attention on the production of rye. One of the principal reasons was that during this period Russian agriculture was still concentrated in the central and northern parts of European Russia, which were not suitable to the cultivation of the more expensive grains. So great was the increase of rye production that by the eighties Russian agriculture found itself in a critical situation. Overproduction of rye led to a rapid decline in prices, both in Russia and abroad, with the result that important changes were forced upon the character of Russian agriculture.[1]

Russian grain culture had been moving steadily from the less productive areas of the north to the virgin soil of the south and the southeast. This movement was accelerated after the rye crisis and found expression in a definite change in the importance of the various grain crops. By the beginning of the nineties we find a definite tendency toward an increase of wheat and barley production. In the older agricultural

[1] Lyashchenko, P. I., Zernovoye Khozaystvo i Khlebotorgovyia Otnoshenia Rossii i Germanii (Grain Culture and Trade with Germany), published by the Russian Ministry of Finance, Petrograd, pp. 3–4, 1915.

sections this increase proceeded at the expense of the rye and oats areas, while in the newer districts it found expression in a general extension of the whole planting area. If we examine the planting area in the fifty provinces of European Russia, we find the following changes taking place in the distribution of the principal grains:[1]

PLANTING AREA IN EUROPEAN RUSSIA
(In thousands of desiatinas)*

	All grains[a]	Wheat	Rye	Barley	Oats
1881	59,026	10,676	23,220	4,242	12,938
1893–95 (average)	60,352	12,014	22,791	5,846	12,345
1896–00 (average)	64,145	13,665	23,272	6,430	13,404
1901–05 (average)	69,049	16,345	24,078	7,104	14,010
1906–10 (average)	70,579	17,779	23,715	7,822	14,137
1911	72,969	19,568	23,923	8,524	14,218
1912	71,414	18,365	23,925	8,540	13,805
1913	73,128	18,708	24,450	9,103	13,996

* One desiatina is equal to 2.7 acres.

[a] Includes corn and the minor cereals as well as the four grains given separately in the table.

If we take the figures for the whole of Russia (including Russia in Asia) we find a still more marked change in the relative importance of wheat and rye culture, especially during the twenty-year period preceding the war. From 1896 to 1900 the average area planted to wheat in the whole of Russia was 17,904,000 desiatinas, while the area planted to rye was 26,484,000. By 1913 the area planted to wheat increased to 27,570,000 desiatinas, while that planted

[1] Idem.

to rye increased only to 27,692,000, making the two staple grains of equal importance in the national grain production.

A still more interesting picture of the situation is obtained if actual crops, rather than planting areas, are taken for the fifty provinces of European Russia. The following table shows the crops of the four grains for 1896–1913:[1]

RUSSIA'S GRAIN CROPS
(In millions of poods)*

	All grain	Wheat	Rye	Barley	Oats
1896–00 (average)	2,735	501	1,090	275	595
1901–05 (average)	3,206	734	1,176	350	666
1906–10 (average)	3,211	733	1,065	418	682
1911	2,906	575	990	427	612
1912	3,799	785	1,403	471	765
1913	4,260	1,090	1,344	579	878

* One pood is equal to 36 pounds avoirdupois.

Comparing now the average planting area and crops for 1896–1900 with the area and crops for 1913, we find a very significant difference between rye and wheat. The increase in the area planted to rye during this period is less than 5 per cent while the increase in the rye crop is 23 per cent. The area planted to wheat increased by 54 per cent, but the total crop more than doubled.

This difference in the situation so far as it regards wheat and rye is to be found largely in the fact that the vast development of Russian agricultural production in the years preceding the war occurred

[1] Lyashchenko, P. I., ibid., p. 11.

principally in the southern belt, devoted mainly to wheat, rather than in the northern section, devoted mainly to rye. This fact is clearly apparent from an examination of the shipments and deliveries of various grains in the different parts of Russia.

Each section of Russia exchanges foodstuffs with other sections. Some sections have an excess of shipments over receipts and are known as the "producing" areas, while others have the reverse situation and are known as the "consuming" areas. The following table shows the situation in both types of these areas at the beginning and the end of the first decade of the present century, the figures being taken as three-year averages:[1]

INTERNAL MOVEMENT OF GRAIN

(In millions of poods)

Section of the country	Excess of receipts		Excess of shipments	
	1901–3	1908–11	1901–3	1908–11
Northern	8	12		
Lake	66	72		
Baltic	65	76		
Northwestern	17	21		
Central	45	62		
Middle Volga	....	....	29	34
Trans-Volga	....	....	25	50
Trans-Dnieper	....	....	53	36
Southern Steppes	3	....	....	17
Dnieper-Don	....	....	110	111
Volga-Don	....	....	81	96
Northern Caucasus	....	....	72	111

[1] Lyashchenko, P. I., ibid., p. 31. Figures for Poland omitted.

The increasing shortage of grain in the poorer agricultural sections (the first five named in the table) was due to two main causes. The first was that the planting area in these parts of the country had already reached its maximum and had even begun to decline through soil exhaustion and conversion to nonfood crops. The second cause was the rapid increase in population during this period.

On the other hand, the extension of planting area in the "producing" regions was chiefly responsible for the increases in the surplus of grain that is shown by the table. Here, too, there was a large increase in population, but the growth of grain production was more than sufficient to take care of it. But even in the richer areas some of the sections began to show a slowing down in the expansion of acreage, only the east and the southeast still holding promise of considerable extension.

Russia was the first modern nation to appear in world markets as a large exporter of grain. The liberation of serfs and the construction of railways after the Crimean War (1854–55) served to stimulate the export of grain, while the fact that there was little competition in supplying the growing needs of the countries of Western Europe, which were being rapidly industrialized, facilitated the placing of Russian grain outside Russia's frontiers. During the five-year period from 1861 to 1865 Russia exported on the average 80 million poods of her four principal grains every year. During the next five-year period the annual average increased to 130 million. Between 1871 and 1875 Russia's average

FIGURE 7.—PRE-WAR AGRICULTURAL MAP OF EUROPEAN RUSSIA.

exports were 194 million poods a year. The average during the next five years increased to 287 million, an increase of two and one-half times in the course of the two decades.

By the middle of the seventies the United States began to appear in world markets as an important exporter of grain, particularly of wheat. Then in the late eighties and nineties came the great agricultural expansion of Argentina and Australia and the Danubian countries. Despite this increasing world competition, the Russian exports of grain continued to increase, keeping pace with her own production and with constantly growing demands for grain in the industrial countries of the European continent. The rate of increase from 1880 to 1900, however, was not nearly as rapid as in the preceding twenty years. The average annual exports for the five-year period from 1881 to 1885 were 301 million poods, while the average for the last five years of the century was 444 millions, an increase of less than 50 per cent.

In part this slowing down of the growth of Russian grain exports was due to crop failures during the nineties; in part to intensified competition from the United States, due to abundant crops and very low prices; and in some degree to the stimulus given to agricultural production in Central Europe. During the first five years of the present century, the situation improved considerably, the average reaching 609 million poods. The exports in 1911 went up to the record figure of 824 million poods, but in 1913 they dropped again to 656 millions.

During the twenty-year period immediately prior to the war, grain exports did not keep pace with increasing production. The changes in the relationship between the total crops of the principal grains and the amounts exported are shown in the table below. (See also fig. 8, p. 93.)

RUSSIA'S EXPORTS OF PRINCIPAL GRAINS *

(In millions of poods)

	Total crop		Exports		*Exports as percentage of total crop*	
	1891–95 (*average*)	1913	1891–95 (*average*)	1913	*1891–95 (average)*	*1913*
Wheat...	452	1,352	171	203	*37.8*	*15.0*
Rye.....	996	1,365	57	39	*5.7*	*2.9*
Barley...	268	701	93	240	*34.7*	*34.2*
Oats.....	532	905	57	37	*10.7*	*4.1*

* Lyashchenko, P. I., ibid., pp. 55–7. These figures cover all of the exporting provinces in both European and Asiatic Russia; hence the differences in totals between this table and the one on p. 87.

During this period the total wheat production was trebled, but the amount of wheat exports increased less than 20 per cent. As a result, instead of exporting nearly 40 per cent of her total crop, as at the beginning of the period, Russia was shipping across her frontiers at the end of the period only 15 per cent of her output. This means that the internal consumption of wheat increased enormously,

and the export of that valuable grain ceased to play an all-important rôle in Russian agriculture.

The total production of rye increased by about one-third, but the home demand for that staple grew faster than the production, and the exports of rye decreased both in absolute amount and as a percentage of the total crop. A similar situation

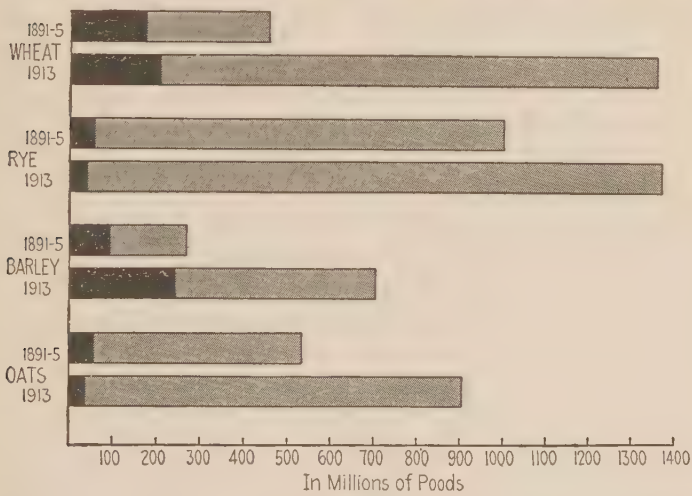

FIGURE 8.—PRODUCTION AND EXPORTS OF RUSSIA'S PRINCIPAL GRAINS. 1913 COMPARED WITH AVERAGE FOR YEARS 1891–5.

obtained with regard to oats: The increase in the total production was equal to 70 per cent, but as in the case of rye the amount of the exports decreased.

The situation with regard to barley is quite different. The total production more than doubled, but the amounts exported kept full pace with the increase of production. As a result the percentage relation of exports to production at the beginning

and at the end of the twenty-year period remained practically the same.

Taking all four of these grains, we find that while the total production almost doubled, the amounts exported increased by only a little over one-third. In other words, at the beginning of the twenty-year period Russia exported 17 per cent of her total grain crop while at the end of the period she exported only 12 per cent.

II. OTHER AGRICULTURAL PRODUCTS

Products other than the four principal grains constituted, in value, well over one-third of the total agricultural exports of Russia. They were of various kinds, representing such phases of agricultural production as dairying, sugar-beet culture, flax growing, etc.

Butter and eggs represented, in value, over 10 per cent of Russia's total exports. The exportation of both of these products is of comparatively recent origin, and the total amounts exported have been large relative to the total production.

Dairy farming developed particularly in western Siberia, where special attention was given to the production of butter. The yearly output of butter there more than doubled between 1901 and 1913, reaching 5 million poods in the latter year. There was also a considerable development of dairy farming in many sections of European Russia, principally in the northwest and the south. Altogether, just before the war, the Russian railways carried annually

about 7 million poods of butter, most of which was sent abroad.[1]

The increase in the exportation of eggs during the twenty-year period preceding the war was truly spectacular, especially when one considers the extremely low consumption of eggs in Russia. In 1894 Russia exported 955 million eggs. In ten years this amount doubled, and in 1913 it reached the figure of 3,397 millions.[2]

No precise figures are available as to the number of eggs produced in Russia; but it is estimated that in 1903, when Russia exported 1,996 million eggs, the total number of eggs laid in the whole country was 3,150 millions. This meant a per-capita consumption of an egg a week in the cities and an egg every seven weeks in the villages, with 60 per cent of the total production sent across the frontiers.[3] There is no reason to believe that this relation between total production and exports changed materially during the decade that followed.

Sugar has never played an important rôle in Russian export. This was not, however, due to the lack of an exportable surplus, but to the limitations imposed on Russia by the Brussels sugar convention. By this agreement, Russia's exports of sugar across the European frontier were fixed at a maximum of 200,000 tons a year. Not until the year 1911–12, when Europe was suffering from a shortage, was

[1] Pelferoff, J. J., Russian Agriculture: Russia; Its Trade and Commerce, p. 33, 1918.

[2] Pelferoff, J. J., ibid., p. 46.

[3] Ozerov, I., Ekonomicheskaya Rossiya, p. 183, 1905.

Russia allowed to increase her exports of sugar. The exports then increased by about 75 per cent.

As a producer of beet sugar Russia ranked second among the countries of Europe, being exceeded only by Germany, though at times she yielded the second place to Austria-Hungary. Her crops showed considerable fluctuation from year to year, which was more or less reflected in the total amounts of her exports. Within the limits of the Brussels convention, however, Russia had an opportunity for exporting from 15 to 25 per cent of her sugar crop, including in this the amounts sent out by way of the Asiatic frontiers.[1]

Vegetables, corn, flour, and bran practically complete the list of foodstuffs exported by Russia. While their combined value is not a large part of the total figures for Russian exports, the amounts shipped across the frontier constitute a rather considerable portion of the total crop of some of these products.

The principal vegetables that appeared in the list of Russian exports were peas, beans, and lentils. The amount of peas exported fluctuated, during the twenty-year period preceding the war, between 20 and 35 per cent of the total crop, at times rising to 50 per cent. In the case of beans and lentils, the amounts exported varied from 25 to 40 per cent of the total crop, and at one time went even as high as 57 per cent.[2]

The exports of flour, principally wheat, were never

[1] Malakhovsky, A., and Isenberg, A., The Cultivation of Cotton, Sugar, etc.: Russia; Its Trade and Commerce, pp. 70–76, 1918.

[2] Lyashchenko, P. I., ibid., p. 201.

large. The Russian milling industry has never been sufficiently developed nor well enough situated with respect to the frontiers to make it possible to compete with the United States and Hungary in quantity, quality, or price.[1]

Corn, used for fodder purposes, was not cultivated largely in Russia. The total crop never exceeded 125 million poods, but of this amount very considerable portions were exported. In the decade of the nineties nearly half of the total corn crop was sold abroad, and during the last decade before the war, about one-third of the corn crop went for foreign consumption.[2]

Bran was of somewhat greater importance as a fodder food. A very considerable portion of the total amount of bran resulting from the operation of Russian flour mills was exported. Owing to the lack of development of Russian cattle raising, the amounts of bran sent abroad were, perhaps, larger than they otherwise would have been.

Seed and seed cakes constituted a considerable item in the Russian exports. There are no figures available to show the total yield of oil seeds in Russia, but the railroad reports[3] indicate roughly the proportion of the various kinds of seed that are shipped abroad in comparison with the amounts shipped to various parts of Russia herself. Judging by these indications, about one-third of the total amount of oil seeds shipped by the producing areas in Russia was exported.

[1] Ibid., p. 203 ff. [2] Ibid., p. 195.
[3] Ibid., p. 284.

The situation with regard to seed cakes was quite different. Scarcely 5 per cent of the total output was absorbed in the internal market, the remainder being shipped abroad.

Flax and hemp were always among the most important of Russian exports. The former was, in fact, one of the first Russian exports, its cultivation dating back to very early periods in Russian history. In the production of flax fiber, which is more important than linseed as a product of flax culture, Russia has long held a position of predominant importance in the world. The linen factories of Western Europe have always been supplied almost exclusively with Russian flax. Russia's production of flax fiber has not, however, shown any tendency toward an increase. The flax crops have been characterized by the same violent fluctuation that occurred in all branches of Russian agriculture. For example, during the five-year period from 1908 to 1912, the Russian flax fiber crop varied from 48 million poods in 1908, to 33 million in 1909, 29 million in 1910, 31 million in 1911, and 46 million in 1912. During this period Russia exported from one-third to one-half of her total production of flax fiber.

While there has been a similar fluctuation in hemp production, the exports have shown a steady increase. However, the percentage of hemp exported from Russia has never been as large as that of flax, never exceeding 20 per cent of the total.[1]

Exports of hides and wool were unimportant. Their combined value has scarcely ever exceeded

[1] Malakhovsky, A., and Isenberg, A., ibid., pp. 64–70.

3 per cent of the total value of Russia's exports and, as will be shown in the next chapter, imports of each exceeded exports.

III. TIMBER, PETROLEUM, AND METALS

There are three more branches of Russia's national production which formerly yielded a considerable exportable surplus. These are concerned with the production of timber, the production of petroleum, and the production of metals.

Timber and wood products were usually the most important Russian exports, next to grain. Russian forest areas are enormous in extent and are sufficiently varied in the kinds of timber to make them a most valuable source of exportable products. These forests are located in many different parts of the country, principally, however, in the northern part of both European and Asiatic Russia. The more rare and expensive kinds of wood are found largely in the extreme south, on both slopes of the Caucasus range.

The export trade in timber and wood products generally has played a very considerable part in the timber industry of Russia. During the years preceding the war, the exports of wood products showed a rapid and uninterrupted increase. The average annual exports for the five-year period from 1901 to 1905 amounted to 242 million poods, valued at 66 million roubles. Steadily increasing in volume and in value, the exports of wood materials reached by 1913 the amount of 469 million poods, which were

valued at 165 million roubles. Thus during the last decade before the war the amount of wood products exported from Russia nearly doubled, while the value of these exports increased more than two and one-half times.

So steady and rapid was the increase in the exportation of timber and wood products generally, that just before the war Russia was shipping across her frontiers fully 25 per cent of her total production.[1] These exports consisted of tree trunks, as well as such semimanufactured products as boards, match wood, veneer, and pulp.

Petroleum is popularly but erroneously regarded as a very important Russian export. While it is true that Russia is normally the second largest producer of petroleum in the world and that her exports of oil and its products are of considerable importance in the world's petroleum trade, the part which these products play in the Russian exports is relatively small—only 4 per cent just before the war.

Russia reached the height of her petroleum production in 1901, when her total output exceeded 700 million poods, equal at the time to 51 per cent of the world's combined production of the crude product. After that it decreased slightly up to 1904, and then dropped suddenly in 1905 to only 456 million poods. This sudden drop was due to the political disturbances which took place in the Baku oil-fields (Russia's principal source of petroleum) in connection with revolutionary ferment. After

[1] Kasperowicz, H., Forestry: Russia; Its Trade and Commerce, p. 200, 1918.

that the production increased steadily, partly through recovery at Baku and partly through the opening up of new fields, reaching by the beginning of the war a total of about 560 million poods.[1]

The peak of the Russian exports of oil and its products was reached in 1904, when Russia shipped 112 million poods across her frontiers. The following year, however, there was a spectacular drop to one-half that amount, followed by a still further decline in 1906, when only 40 million poods were exported. Then there began a slow but steady increase in the exports, the exports for 1913 (58 million poods) approximately equalling the exports for 1905.[2]

Considering the fact that a part of the exports is the product of refineries, the total amount exported is, in terms of the crude product, somewhat larger than the given figures. The Russian exports of petroleum at their peak may be taken as equal to about 30 per cent of the total output, while in 1913 they were only about 12 per cent of the total. The difference is undoubtedly due to the increase in domestic consumption, occasioned by the growth of the population and the development of Russian industry.

Metal exports were of negligible importance. The value of Russia's metal exports was even smaller

[1] Korzukhin, I. A., The Petroleum Industry: Russia; Its Trade and Commerce, p. 179, 1918.

[2] Statistical Abstract for Principal and Other Foreign Countries, pp. 114–115, 1913; also, Yearbook of the Russian Ministry of Finance, p. 554, 1915.

than that of petroleum, amounting in 1913 to only 18 million roubles, or a little over 1 per cent of Russia's total exports. Two metals—manganese and platinum—constituted the bulk of these exports. In both of these metals Russia occupied a predominant position in the world, exporting the greater part of her total production.

Practically the whole of the manganese ore output of Transcaucasia, amounting to about 60 million poods a year, was exported in crude form, the Russian metallurgical industry being supplied from the less important source of this mineral in South Russia.[1] Almost the entire platinum output was also shipped abroad. The shipments in some years exceeded current production, being supplied out of reserves.[2]

Russia was undoubtedly exporting before the war to her maximum capacity. It was the generally accepted opinion both of Russian economists and of foreign students of Russian conditions that Russia was exporting more than the economic situation within the country warranted. The statement made by Vishnegradsky, Count Witte's predecessor as Minister of Finance, that "*nedoyedim, a vyvezyem*" ("We shall export, even though we have insufficient food for ourselves")—a trenchant epitome of the situation in the late eighties—was applicable to the whole period preceding the war.

[1] Korzukhin, I. A., Mining and Metallurgy: Russia; Its Trade and Commerce, p. 167, 1918.

[2] Idem, p. 189.

Though a nation of vast area and rich potential resources, Russia had remained relatively undeveloped. In consequence, the standard of living of her huge population was always practically at the subsistence minimum. Attention has already been called to the policy of the imperial government in forcing exports of grain, and we have noted that in the villages the per capita consumption of eggs was but one in seven weeks. The truth is that the agricultural output in Russia in 1913 (an ordinary year) amounted to only $24.17 per capita.[1] Of this amount about 12 per cent was exported, leaving a per capita consumption of approximately $21. Larger exports were out of the question.

IV. FUTURE EXPORT POSSIBILITIES

Assuming an eventual stabilization of Russian conditions, we may now examine the future export problem of Russia. We must first consider the agricultural situation, where certain important changes have occurred.

Russia's export surplus of agricultural products is likely to be less than before the World War. During the years immediately preceding the war, 70 per cent of the whole planting area in Russia belonged to the peasants, while 30 per cent constituted nonpeasant estates. A considerable portion of the estate land, however, was worked by the peasants on leases, with the result that nearly

[1] Prokopovich, S. N., The New Economic Policy: Ekonomichesky Viestnik, p. 47, Berlin, 1923.

90 per cent of the total crop was produced by the peasantry. Generally speaking, the lands worked by the owners of estates were about 20 per cent more productive than those worked by the peasants, because of the better agricultural methods employed. At the present time practically the whole planting area is in the hands of the peasants, and it is likely to remain so, whatever the changes in Russia in the near future. The effect of this upon Russia's probable agricultural production is not, however, likely to be very great, in view of the large percentage of the total land that was worked by the peasantry before the revolution.

A more important factor bearing upon Russian agricultural production is the decrease in Russian population, particularly in the grain-growing regions. It is in the export-grain areas that the population has suffered most heavily from the recent famines. If the loss of population could be offset by a rapid introduction of machinery and improved agricultural methods generally, the effects upon output would not be so marked, but in view of the illiteracy and general backwardness of the country, the improvements in agricultural methods and the introduction of machinery can come only very gradually. Accordingly, one must assume that for many years to come Russian agricultural production will not equal that of the years just preceding the war. In our computations of Russian export capacity we assume agricultural production to equal about 95 per cent of the pre-war total.

Russian food consumption may well be as large

as before the war. The separation from Russia of Poland and Finland (it is assumed here that the rest of the territory of the former Russian empire will eventually be included in a reconstructed Russia) has not reduced proportionally the tillable land of Russia, as both Finland and Russian Poland were poor in agricultural resources. But this separation has reduced the population of Russia by about 8 per cent. The population of the Russian Empire just before the war was estimated at 178 millions. Subtracting from this the population of the lost territories, we obtain a figure of 163 millions. This figure has to be reduced still further on account of the ravages of the war, the revolution, and the famine. Allowing for these factors, and the natural increase of population, we may assume that by the time Russia's agricultural production reaches the pre-war scale her population will be something like 150 millions.[1] This factor would operate towards a smaller aggregate consumption in Russia.

But on the other hand we must assume a somewhat higher standard of food consumption than before the war. The pre-war peasant consumption of food, as we have seen, was pitiably low. With the land now almost completely under control of the peasants, it is difficult to believe that any future Russian government could force the peasantry by means of tax devices to sell for export as large a portion of their foodstuffs as was the case under the Imperial regime. This increase in per capita con-

[1] See Appendix, pp. 192 ff, for a discussion of Russian population data.

sumption may well offset the influence upon consumption of a reduction in the population.

If we assume production to remain at 95 per cent of the pre-war total, despite a loss of 15 per cent in population and a reduction in area, and assume no reduction in total domestic consumption of foodstuffs, for the reasons mentioned, Russia's export surplus of agricultural produce would equal about 600 million gold roubles. This figure, which is expressed in terms of pre-war prices, may be compared with a total of 840 million roubles for the year 1913. We find confirmation for this figure, based upon estimates of total production and consumption, in a consideration of the situation with respect to particular agricultural commodities.

Cereals constitute much the most important group of Russian agricultural exports. In the light of the general considerations discussed above, it would seem that the exportable surplus of cereals could scarcely exceed 75 per cent of the pre-war totals. It should be noted in this connection that a 25 per cent reduction in wheat exports, for example, is equal to a reduction of only about 4 per cent in the total production of wheat, since exports comprise only about 15 per cent of the total wheat output. This 25 per cent reduction in cereal exports is shown in actual figures in the table on page 109.

A number of other food products require some attention, namely, "other foods and fodder," eggs, butter, sugar, and tobacco and alcohol. As a basis for the table of estimated future exports, we shall assume a reduction in other food and fodder of

25 per cent, the same as in the case of wheat and other cereals.

Egg exports, it will be recalled, were enormous before the war, domestic consumption being almost negligible. Owing to an inevitable increase in consumption it is very doubtful whether egg exports will again approach pre-war totals. We assume a 50 per cent reduction in the table. The outlook for butter exports is perhaps somewhat better.

In the case of sugar it would seem that future exports might well be made to equal pre-war figures. It will be recalled that pre-war exports were not large, being held in check by the terms of the Brussels sugar convention. Exports of tobacco and alcohol were of negligible amounts before the war, and we shall assume that the pre-war totals may be again equalled. With the miscellaneous group we assume a 25 per cent reduction.

Live-animal exports consisted principally of horses, hogs, and poultry. Cattle exports were negligible. In view of the enormous destruction of live stock during the war and since, it will be a long time before domestic requirements are again met. In the table we assume, however, that live-animal exports will eventually equal 50 per cent of pre-war totals.

The export surplus of nonagricultural products will be somewhat reduced. In the case of raw materials and semimanufactured products the situation is different from that in agriculture. Before the war, production of these commodities was actually in excess of reasonable domestic requirements, leaving

a genuine surplus for export. Once returned to the pre-war scale of production, Russia ought to find little difficulty in exporting as much as 90 per cent of the amount of timber, seeds, flax, petroleum, metals, etc., that she exported before—and this despite the loss of Poland.

Exports of manufactured goods, small before the war, will doubtless be negligible for many years to come. During the last few years before the war the Russian government endeavored to stimulate the exportation of finished products by a number of measures including rebates of customs duties when imported materials were reexported in finished form. About one-half of the total manufactured exports were textiles. The loss of Poland with its great textile industries renders the exportation of manufactured goods improbable for a long time to come. In the table we assume a reduction from 85 million to 8 million roubles, or of about 90 per cent. The output of reconstructed Russian industries (outside of Poland) will be practically absorbed by indispensable home-market requirements.

In the table on page 109 we have brought together these very rough estimates of Russia's probable future exports, setting them off against the figures for 1913. In order that comparative quantities may be indicated, the amounts are expressed in gold roubles at pre-war prices.

In these estimates we have consciously endeavored to present as favorable a picture for Russia as possible. The figure of 1,150 millions, at which we have arrived, may be compared with an average net export

ESTIMATED FUTURE EXPORT CAPACITY

(In millions of gold roubles at pre-war prices)

	Actual exports, 1913	Estimated future
Foodstuffs	**840**	**619**
Wheat	225	170
Barley	186	140
Rye	33	25
Oats	32	24
Other food and fodder	119	89
Eggs	91	45
Butter	72	54
Sugar	27	27
Tobacco and alcohol	14	14
Miscellaneous	41	31
Live animals	**34**	**17**
Raw and semimanufactured materials	**561**	**506**
Timber and wood products	164	
Seeds	35	
Seed cakes	39	
Flax	94	
Hemp	23	
Hides	37	
Wool	11	
Metals	18	
Petroleum	50	
Miscellaneous	90	
Manufactured goods, completely finished	**85**	**8**
Grand total	**1,520**	**1,150**

from 1904 to 1908 of 1,045 millions, and an average from 1909 to 1913 of 1,501 millions.[1] We believe that 1,150 millions represents Russia's maximum export capacity on the basis of a return to the pre-war scale of operations.

The proceeds of Russian exports, it may now be recalled, must be used first of all to cover the cost of necessary imports. What then are Russia's minimum import requirements? This question the next chapter seeks to answer.

[1] This increase was in part due to rising prices.

CHAPTER VII

RUSSIA'S IMPORT REQUIREMENTS

In a country of such varied and extensive resources as Russia it might seem perhaps that imports would be of negligible importance. We shall find, however, that during the entire twenty-year period before the war a large volume of imports was indispensable to the economic life of the country, and that if Russia is to recover her economic equilibrium she must again have a large and varied import trade. In the present chapter we shall discuss: (1) The development of Russian industrialism before the war; (2) the dependency of Russian industries upon imports of materials; and (3) the future import requirements, if Russia's economic recovery is to be effected.

I. RUSSIA'S INDUSTRIAL DEVELOPMENT

Russia did not begin her industrial development on a modern scale until late in the nineteenth century. The immense distances separating the various parts of the country, as yet unbridged by the extension of railways and navigable waterways, favored production on a local scale, rather than a concentration of industrial activities and an interchange of commodities over large areas. As late as 1890 the number of workmen employed in factories and

foundries, as distinguished from handicraft shops, was less than a million and a half, representing an increase during the preceding four decades of only a million. A very large part of this factory production was represented by metallurgy, which went into the construction of railways and the supplying of the needs of the army and navy.

Russia's extensive industrial development began about 1890. This was the period of the rapid introduction of large-scale industry under the regime of Count Witte. In 1890 the total value of Russia's industrial output was only 1,503 million roubles; by 1900 it reached 3,439 millions. During the same period the number of workmen in the various industrial enterprises increased by nearly a million, almost as much as in the four preceding decades. The process of industrial expansion was perhaps too rapid for the potentialities of the situation. The internal market did not keep pace with the requirements of industrial growth, and foreign markets for Russian manufactured goods were both remote and restricted. The end of the century witnessed an industrial crisis of unprecedented severity, followed by a prolonged depression which affected every phase of Russia's national life.

Although conditions showed improvement in 1902 and 1903, the rate of industrial growth was thenceforth less rapid. The increase in the number of workmen employed in the various forms of industry during the years that intervened between the beginning of the present century and the outbreak of the war was only half that of the preceding decade.

The total output, which in 1900 had stood at 3,439 million roubles, had increased by 1912 to 5,738 millions. Although a part of this growth is only nominal, being due to the advance in prices during the period, it remains true that the productivity of Russian labor during the two decades preceding the war registered a substantial increase, owing to the introduction of modern industrial methods.

It should be added that the above figures do not indicate Russia's total industrial output. The handicraft shops, which were very numerous, produced a total output perhaps half as large as that of the factories and foundries.

The growth of transportation and mining were the factors chiefly responsible for the development of Russian industry. In 1890 there were 27,000 versts [1] of track in Russia, and at the outbreak of the war there were upward of 65,000 versts. During this period the output of coal more than doubled, exceeding in 1913 two billion poods,[2] while the output of petroleum increased from 300 million poods in 1890 to 560 millions in 1913. The increase of foreign investment in Russia (see Chapter III) served greatly to stimulate transportation and mining industries, as well as other forms of industrial growth.

The only available official data on the character of Russian industry as a whole are those given in the All-Russian industrial census, taken in 1908. On the basis of the figures obtained by this census we can form a general idea of the characteristics and

[1] One verst equals 0.66 mile.

[2] One pood equals 36 pounds avoirdupois.

relative importance of the various branches of Russian industry.

Russia's industry, aside from mining and transportation, consisted mainly of the textile, metal, and food-working groups. The textile group, comprising the production of cotton, wool, silk, flax, and other fabrics, held the first place so far as the number of workmen was concerned. It employed 36.5 per cent of the total number of industrial workers in the country. Its output constituted, in value, nearly 30 per cent of the total for the whole of Russian industry. The metal group, including the railroad workshops and all the works of the Naval Department, employed 24.5 per cent of all the workmen. The value of its output constituted 16 per cent of the total. The group of factories concerned with the preparation of articles of food held the first place in value of output. It supplies 34 per cent of the total output of Russian industry, but employed only 17 per cent of the number of workmen engaged in industrial pursuits.

Besides these three main groups, there were other branches of industry which supplied the remaining 20 per cent of the output and gave employment to 22 per cent of the industrial labor force. Here the first place in the value of the output was held by the naphtha industry, and the largest number of workmen were engaged in the working of minerals. The group also comprised the manufacture of paper, wood products, chemicals, etc.

The relative importance of the various branches of industrial production continued approximately the

same through the years that intervened between the date of the census and the outbreak of the war. The total output increased in value during this period by about 20 per cent, though the number of workmen increased by only about 10 per cent. A partial explanation of these two figures is found in the further concentration of Russian industry during this period. In 1908 the total number of factories and foundries in all these branches of industry was about 40,000, while in 1912 it was only about 30,000. A process of consolidation of the existing industrial enterprises was occurring during this period, though with the implications of this process we are not here immediately concerned.

Given an adequate labor force and the necessary financial resources, this industrial system depended for its operation upon the requisite supply of raw materials and fuel. To what extent was it supplied with domestic raw materials and fuel and to what extent did it have to depend for these requisites upon importations?

II. SOURCES OF RAW MATERIALS AND FUELS

The first two groups of industry, in the above classification, viz., textiles and metals, both depended in some measure upon the importation of foreign materials. These two groups were responsible for one-half of Russia's total industrial output and their products were indispensable to the life of the country. They supplied Russia with clothing, with some of the machinery and tools needed in other pursuits, and

with the means of transportation that bound together the various parts of the country.

The cotton industry, which held the predominant position in the textile group, just before the war imported somewhat less than half of its raw material. The supplying of more than half the total Russian cotton consumption through domestic production was made possible through the rapid development of cotton growing in Turkestan and Transcaucasia. The following table shows the changes in the relative amounts of domestic and imported cotton:

RUSSIA'S CONSUMPTION OF RAW COTTON*

(In millions of poods)

	Domestic	Imported	Total
1895	3.3	8.2	11.5
1900	5.8	10.3	16.1
1905	6.2	10.4	16.6
1910	10.6	12.1	22.7
1911	13.5	12.3	25.8
1912	14.3	11.0	25.3

* Explanatory Memorandum of the Minister of Finance to the Budget for 1913; also, Narodnoye Khozaystvo (National Economy), p. 175, 1913, annual publication of the Ministry of Finance.

The increase in domestic production of raw cotton shown in this table was large and steady. But the consumption of cotton proceeded on an even larger scale, with the result that the imports of cotton also showed a continuous increase up to 1912.

Not only did Russia import raw cotton for her textile industry, but she found it necessary to import

considerable quantities of spun cotton, in spite of increasing domestic production. Between 1906 and 1911, when the output of spun cotton in Russia increased in weight by 30 per cent, the importation of spun cotton increased by 68 per cent.[1]

The woolen industry was less dependent than cotton upon foreign materials. Nevertheless, its requirements could not be satisfied by the domestic production alone. In fact, during the two decades preceding the war the Russian production of raw wool actually decreased. In 1890 Russia's total production of wool amounted to over 16 million poods, while by 1912 it had decreased to less than 15 millions.[2] The consumption of wool, in the meantime, showed a tendency to increase rather than decrease. As a result of this, the importation of raw and semiworked wool during this period more than doubled, increasing from an average of 1.2 million poods in 1891–95 to over 2.5 million poods in 1912 and to even more than 3 million poods in 1913.[3]

It is true that Russia also exported certain amounts of wool, but the imports always greatly exceeded the exports. Moreover, the imports showed a definite upward trend, while the exports remained fairly constant. During the ten years immediately preceding the war, the exports of wool fluctuated as

[1] Zagorsky, S. O., Voina poslye mira (War after Peace), p. 310, Petrograd, 1917.

[2] Explanatory Memorandum, ibid.

[3] Zagorsky, ibid., p. 313; also Narodnoye Khozaystvo, ibid., p. 190.

follows: 1 million poods in 1904, 1.2 millions in 1906, .5 million in 1908, 1.2 millions in 1912, and 1.1 millions in 1913. On the other hand, the imports increased, with merely slight fluctuations, from about 1.5 million poods in 1904 to 3.3 millions in 1913.[1]

Russian metallurgy underwent a period of very great development during the twenty-year period preceding the war. In 1894 the total production of pig iron in Russia amounted to 80 million poods. Then it increased rapidly with comparatively slight fluctuations, until it reached 283 million poods in 1913. The raw materials for practically the whole production came from Russian ores, the reserves of which are considered amply sufficient for the needs of the country. In spite of this increase in production, however, the requirements of the Russian industry could not be satisfied from domestic sources. Especially during the last few years preceding the war was there a noticeable shortage of pig iron, with the result that the government made special tariff exceptions with a view to stimulating importation. In 1911–13 Russia imported an average of about 4 million poods of pig iron annually.[2]

Russia's copper production also showed a very rapid development. The total output rose from 330 thousand poods in 1894 to 2.048 thousands in 1913. Copper requirements, however, increased faster than the production, though shortly before the war the shortage of copper definitely decreased. During the

[1] Narodnoye Khozaystvo, p. 188, 1913.
[2] Ibid., pp. 371–72.

ten years preceding the war, the importation of copper decreased by two-thirds—from 1,240 thousand poods in 1904 to 374 thousands in 1913.[1]

The production of zinc in Russia increased very slowly, while the consumption grew fast. In 1909 domestic production supplied 46 per cent of the requirements, while in 1913 it accounted for only 29 per cent. The situation with regard to lead showed a still greater dependence upon foreign materials. Only about 3 per cent of the total requirements were supplied from domestic production.[2]

The importation of chemicals, both as raw materials and as partly finished products, showed a considerable increase just before the war, though no figures are available to indicate the relations between domestic production and imports. A similar situation obtained with respect to fertilizers and animal products, though a definite decrease was noticeable in the amounts of fats imported into the country.

Russia was not altogether self-sufficient in fuel products. Prior to 1890 wood played a most important rôle in Russia's supply of fuel both for home and for industrial purposes. Hardly any petroleum was used as industrial fuel. During the nineties, however, a very important change took place. The consumption of coal for industrial needs more than doubled, while that of wood decreased to only one-third what it had been ten years before. At the same time the consumption of oil as industrial fuel

[1] Ibid., pp. 405–08.
[2] Ibid., pp. 414–18.

increased more than a hundredfold. During the years that followed, the use of oil showed a noticeable decrease, while that of wood increased somewhat. Coal consumption, however, showed a steady increase.[1]

Although the Russian coal output quadrupled between 1894 and 1913, it was never sufficient to supply all the needs of the country. The following table shows Russia's imports of coal in comparison with total domestic production:

RUSSIA'S PRODUCTION AND IMPORTATION OF COAL *

(In millions of poods)

Year	Production	Importation
1900	1,003	240
1905	1,141	226
1910	1,522	259
1911	1,739	280
1912	1,904	324
1913	2,213	468

* Narodnoye Khozaystvo, pp. 303–05, 1913.

Thus Russia imported regularly an amount of coal equal to from 16 to 24 per cent of her total domestic production. This production, in spite of its steady increase, invariably fell behind the country's requirements. It is true that Russia exported a small amount of coal through her Black Sea ports. But the volume of her exports at their highest, in 1913,

[1] Varzar, V., Factories and Workshops: Russia; its Trade and Commerce, p. 124, 1918.

constituted considerably less than one-half of one per cent of the total production.

III. SOURCES OF FINISHED PRODUCTS

On the eve of the war, Russia's industrial production supplied five-sixths of the country's total consumption, the other sixth being imported from abroad.[1] These imports consisted of semimanufactured goods, which went into factory production, and of finished products, used for direct consumption. Of the two groups, the first was by far the more important.

Russian imports of finished products were only 2.5 roubles per capita. But this figure assumes a very different significance when we consider the imports by categories. One-third of the value of manufactured goods imported into Russia just before the war was represented by machinery and tools of all descriptions. In 1912–13 the total amount of machinery sold in the Russian markets was valued at 350–370 million roubles. Of this amount, 200 or 210 million roubles represented the value of the domestic output of machinery, while the remainder was the value of the imports.[2] In other words, only 57 per cent of the machinery sold in Russia just before the war was manufactured at home, and 43 per cent had to be imported from abroad.

[1] Grinevetsky, Post-war Outlook of Russian Industry, Moscow, 1919.

[2] Savin, N. N., The Machine Industry: Russia: Its Trade and Commerce, p. 203, 1918.

There was a very striking increase in the importation of machinery during the twenty-year period preceding the war. Between 1891 and 1895 the value of the machinery of all descriptions imported into Russia averaged about 35 million roubles a year. The figure increased fourfold by 1911 and increased still further in 1912 and 1913. Especially great was the increase in the amount of agricultural machinery imports, the value rising from 6 million roubles in 1891–95 to about 50 million roubles just before the war.[1]

According to the figures of the Russian customs department [2] during the decade immediately preceding the war, the importation of machinery proceeded much faster than that of either raw or semimanufactured metal products. The amount of raw materials imported during this period increased from 5.4 million to 8.3 million poods, or by 54 per cent; that of semimanufactured products increased from 1.5 millions to 2.5 million poods, or by 67 per cent; and the amount of machinery imports increased from 4.8 million to 9.3 million poods or by 94 per cent.

These machines and tools entered into every phase of economic activity in Russia. They supplied the needs of agriculture, as well as those of the textile, chemical, and even the metal-working industries. Yet even with the domestic production of machinery, which, as we have just noted, was somewhat larger than the importation, Russian industry was still insufficient to supply the country with goods re-

[1] Ibid., p. 211.

[2] Quoted in Zagorsky, ibid., p. 321.

quired for current consumption and domestic use. Over half of the total value of imports of manufactured goods consisted of such articles of general consumption, constituting all told about 20 per cent of the total imports.

It is impossible to compare these various imports with Russia's own production of similar products, since no figures are available. Some of these articles might have been manufactured within Russia, had her industry been sufficiently developed along these particular lines. Others, however, were the peculiar products of foreign development along special lines. Such specialties always figure in import trade, even in that of highly developed industrial countries.

IV. FUTURE IMPORT REQUIREMENTS

In the light of the preceding discussion of Russia's pre-war import trade we may now turn to a consideration of Russia's import requirements for the future. There is a very naïve notion current in international trade discussions to the effect that a nation can readily dispense with virtually all of its imports. It is argued that the disposal of the proceeds of exports is a matter of free choice on the part of the exporting country—that they may be used to purchase imports for consumption, or to increase investments abroad, or, if occasion requires, to pay foreign debts. According to this doctrine the complete elimination of imports would have no effect upon the volume of exports, but would merely result

in lessened consumption. Everything else is supposed to remain equal. We shall find, however, that in even a relatively undeveloped country such as Russia, as well as in a highly industrialized nation such as Germany,[1] a very considerable volume of imports is indispensable to the maintenance of the economic life of the country and its export capacity.

In estimating Russia's future import requirements we shall again assume an eventual return to the prewar scale of operations, allowance being made for a reduction of territory and a net decrease of population from 178 to 150 millions.

We must first take account of imports of agricultural products. In 1913 Russia imported 255 million roubles worth of foodstuffs and live animals. It is interesting to note that Russia was an importer of many products of which she was also an exporter on a large scale, such as various kinds of cereals. The explanation of this is that certain regions which produced insufficient quantities of cereals found it cheaper to import grain from near-by foreign countries than to purchase it in more distant parts of the empire. For example, Manchurian wheat was imported into eastern Siberia. It is clear that if the bulk of these imports is not continued in the future the total of exports from Russia will have to be somewhat reduced. Besides grains, Russia imported considerable quantities of fish, crabs, oysters, tea, wines

[1] For an exposition of the utter falsity of this doctrine as applied to an industrial nation such as Germany, see Moulton, H. G., and McGuire, C. E., Germany's Capacity to Pay: Investigations in International Economic Reconstruction, Chap. IV, 1923.

and other drinks, fruits, spices, etc. Imports of these partially dispensable consumptive goods, luxuries and semiluxuries, will undoubtedly be materially decreased as a result of the disappearance of the wealthy agrarian class. Bearing in mind the loss of population, it would seem not impossible that this whole group of foodstuffs and live animals might be reduced by as much as 50 per cent.

In the case of industrial materials, it is doubtful if Russia can get on with much smaller imports than she had before the war. The great bulk of these materials is absolutely essential to the recovery and to the permanent operation of Russian industries. The metals group, for example, consists of raw materials, semimanufactured goods, and finished products. Some of the finished products, amounting to about 5 per cent of the total imports in this group, fall in the luxury class and could conceivably be eliminated.[1] But the raw materials and semimanufactured goods are indispensable in the maintenance of Russian industry. Allowing for the 15 per cent loss of population, we may put the maximum reduction of imports in this group at 20 per cent.

Imports of fuels can not be greatly reduced for some time to come. Coal was the most important fuel import before the war. While it was demonstrated during the war that Russia's coal requirements could in an emergency be met from the Donetz basin in the south, the cost of transportation to the

[1] These comprise half of all the imports of gold, silver, and platinum articles; musical instruments; vehicles, etc.

north of Russia is practically prohibitive. Until Russia's transportation system is much more adequate than it was before the war, northern Russia must continue to import some coal. The need of coal imports is accentuated by the fact that the Dombrowa mines in Russian Poland, which before the war supplied over 20 per cent of Russia's coal requirements, have been lost. Allowing for the loss of population, we may perhaps reduce Russian fuel imports by as much as 15 per cent. A similar reduction may be expected in building materials and like products.

Before the war Russian wool growing was on the decrease, but cotton growing was increasing. Assuming a recovery to pre-war acreage and yields and keeping in mind the reduction in population, we may estimate a 15 per cent reduction in the imports of textile materials.

Somewhat larger reductions of imports would appear to be possible in animal and chemical products, such as fertilizers, hair, fats, wax, etc. Considerable reductions may also take place in the amounts of manufactured imports, such as wood products, paper, haberdashery, etc. We assume a 25 per cent reduction in both cases. The table on page 127 summarizes these very rough reductions. The estimates are on the basis of gold roubles at 1913 prices.

The amounts represented by these values at pre-war prices constitute what may be considered Russia's irreducible imports, if she is to satisfy her fundamental needs, maintain her standards of production, and export the quantities arrived at in the

preceding chapter. Take away imports of mining machinery, and Russia's production of raw materials for export will be greatly reduced. Take away imports of agricultural implements, and Russian agricultural production and exports will be lessened. Take away imports of basic raw and semimanufactured materials, and Russian production of rolling

RUSSIA'S ESTIMATED INDISPENSABLE IMPORTS

(In millions of gold roubles at 1913 prices)

	Actual imports, 1913	Estimated future requirements
Foodstuffs	256	128
Ores, metal, and machinery	353	282
Fuels	144	122
Building materials, etc.	33	28
Textiles	314	267
Animal and chemical products	162	122
Manufactures of wood, paper, haberdashery, etc.	112	84
Total	1,374	1,033

stock, industrial equipment, clothing, household and agricultural utensils, etc., will fall below the minimum indispensable to the maintenance of the Russian economic system, agriculturally as well as industrially. With the decline of production would come a decline in government revenues and inevitable fiscal and monetary difficulties. When a steady

flow of imports has once become an integral part of a country's productive mechanism, any drastic reduction of such imports will produce far-reaching and disastrous economic consequences.

It has been argued by some, however, that imports of materials required by Russian industry may be dispensed with in the future, through the failure of large-scale industry to revive. That is to say, if no effort is made to restore large-scale production in Russia, and if the nation becomes primarily agricultural, save for some small handicraft operations, Russia will not need to import any appreciable quantities of raw materials and semimanufactured goods. With a reduced city population, it is argued, Russia can expand her exports of agricultural products and use the proceeds to buy such manufactured goods as are required. Such an outcome in Russia would not, however, in the slightest degree eliminate the import problem; on the contrary, it increases the difficulty of the problem. With the industrial development that existed before the war, Russian large-scale industries produced 55 per cent of the total manufactured goods used in Russia, including all of the railroad equipment and the great bulk of the textile fabrics and fibrous products. If Russian industry is to cease, these manufactured goods, which before the war greatly exceeded in value the total imports of raw and semimanufactured materials, will have to be imported. Besides, Russia would have to import all those necessary manufactured goods which were not manufactured in Russia, notably agricultural implements.

Whether or not Russia follows in the future the general lines of her pre-war economic development, she can not recover economic equilibrium and develop any debt-paying capacity without imports of a value at least equivalent to the rough estimates given in the table above.

CHAPTER VIII

RUSSIA'S PAYING CAPACITY

Having laid the foundation in preceding chapters, we may now draw together the threads of our discussion and reveal Russia's international financial situation. Restored to the pre-war scale of production, will Russia be able to meet the foreign obligations for which she is held responsible? In order that none of the salient points in the preceding analysis may be lost to view, we present a brief summary as follows:

In the twenty-five years preceding the Great War Russia's national economic development was in large measure dominated by international trade and financial considerations. Because of a steadily accumulating foreign indebtedness, Russia was seldom able to meet all her foreign payments out of the proceeds of her exports. Save in a few exceptional crop years, interest on the foreign debt and payments for services exceeded the amount of the favorable trade balance. Consequently, Russia found it necessary to resort almost continuously to additional foreign borrowings.

The difficulty of meeting international payments was further complicated by the domestic currency problem. The establishment of the gold standard was regarded as imperative, both in order to provide

a relatively stable monetary system within the country and to facilitate trade and financial operations with other countries. But the accumulation of reserves sufficient to place Russia on a gold basis required large imports of gold during the nineties, thereby increasing the foreign debt. The maintenance of the gold standard in later years rendered it necessary to prevent the export of gold in any considerable quantities; hence adverse international balances could not be paid in gold.

The budget problem would have presented comparatively little difficulty except for the heavy annual payments required in meeting the interest due on the state foreign debt. In the earlier days the budgetary difficulties were further increased because of large appropriations for extensive internal development, designed primarily to bolster up Russia's weak credit in foreign markets. In time, however, the increased productivity resulting from these improvements naturally provided larger revenues and somewhat relieved the budgetary problem. The major factor in making possible a balanced budget in the later years before the war was, however, the large revenues derived from the liquor monopoly.

While Russia's program of internal industrial development was given its great impetus by the necessity of providing a sound basis for foreign loans, there was also a more obvious reason for promoting such development. It was pointed out that the imports of manufactured commodities would thereby be decreased, exports increased, and

the trade balance improved. Once under way this development naturally continued, being carried on by Russian private interests which had come to realize the profit possibilities in industrial expansion. Industrialism did, in fact, bring to Russia a considerable increase in production, an expansion of exports, and some improvement in foreign debt-paying capacity. But, because of the increase in imports required in the development and operation of Russian industries, the improvement in the balance of trade was slow and irregular, and the balance of payments problem still remained unsolved at the outbreak of the Great War.

As a result of war and post-war changes, Russia's foreign indebtedness has more than doubled and her gold supply has been almost completely exhausted. At the same time the internal economic development which resulted from the foreign borrowings in the twenty years preceding the war has been largely wiped out. Even with political and economic stability restored in Russia, that country will still be in a position roughly analogous to that which obtained in 1890, at the beginning of the era of industrial expansion.

To state the present problem in its simplest terms, a solvent Russia must have both a budgetary surplus and a favorable balance of trade. Russia can meet payments on her foreign obligations only if she is able to develop an excess of revenues over expenditures in her domestic budget large enough to cover the payments required; and she can convert these domestic revenues into the foreign currencies in

which payments must be made only provided she can develop a corresponding excess of exports over imports.

Restored to approximately her pre-war scale of production and faced with certain other conditions discussed in Chapter IV (p. 63) it appears that Russia might conceivably be able to develop a considerable budgetary surplus. It will be recalled that the obliteration of the large domestic indebtedness has been of very great aid in this connection. Without dwelling here upon the undoubted difficulties involved in obtaining a satisfactory budget situation within the country and the close relation between the budget and the foreign trade and debt situation, we shall devote our major attention to the inevitably more difficult second part of the problem—that of developing an adequate export surplus.

Russia can increase her trade balance only by expanding her exports faster than her imports. This statement, it will be noted, implies that both imports and exports must increase. It is true, theoretically, that a nation might increase its trade balance through the process of decreasing its imports or through increasing its exports, or by doing both simultaneously. But in the case of Russia, as of Germany,[1] there are certain practical reasons why imports can not be reduced if exports are to expand.

Russia must have an irreducible minimum of imports, because her general economic life and her export capacity are directly dependent upon them.

[1] See Moulton, H. G., and McGuire, C. E., Germany's Capacity to Pay, Chapters II and IV, 1923.

Equally vital are the invisible imports, or services, for without them Russia's national life can not function normally. Payments on these accounts must always have first claim on the proceeds from exports. Suppose, for example, that whatever the volume of Russian exports, the government should take out of the export proceeds what it needs to meet foreign payments, meanwhile ignoring import requirements. The result would be a curtailment of these indispensable imports and services, which in turn would lead to a decrease of exports, thereby affecting Russia's paying capacity, disorganizing generally the economic life of the country, and producing budget difficulties. Pre-war experience definitely bears out the conclusion that the only practical way in which the trade balance can be increased is by expanding exports faster than imports are increased.

The precise degree to which Russia will eventually find it possible to expand exports relatively to imports lies beyond the present range of human vision. We can, however, set forth with reasonable definiteness Russia's export requirements if she is to meet her foreign obligations, either in whole or in part.

The following table indicates the volume of exports that Russia must have (after a return to her pre-war scale of operations) if she is to meet her various classes of foreign payments. It should be stated at this place that the interest figures do not include amortization charges nor do they allow for arrears of interest. The first column of figures states these estimates in gold roubles. The third column shows

EXPORTS REQUIRED FOR MEETING FOREIGN PAYMENTS

(All computations are based on post-war prices *)

Classes of payments to be met	Export requirements		
	In millions of gold roubles	*As percentage of average exports for 1909–13*[a]	*As percentage of probable exports*[b]
Indispensable imports	[c]1,550	*69*	*90*
Service charges[d]	70	*3*	*4*
Interest on Russian nongovernment securities[d]	80	*4*	*5*
Charges on pre-war state railroad, guaranteed, and municipal loans	150	*7*	*9*
Charges on general pre-war state debt	90	*4*	*5*
Charges on war debt	400	*18*	*23*
Interest on new 3-billion rouble loan[d]	240	*11*	*14*
Total	2,580	*116*	*150*

* We are assuming post-war prices to be 150 per cent of pre-war prices.

[a] The average exports for the years 1909-13, at pre-war prices, amounted to 1,501 million gold roubles. In post-war prices this figure becomes roughly 2,250 millions. This figure is used in arriving at the percentage in the second column of the table.

[b] In Chapter VI, we estimated the probable export capacity of Russia, based on a return to the pre-war scale of operations, at 1,150 millions. Converted into post-war prices this gives 1,725 million roubles, which is used as a basis for computing the percentages in the last column of the table.

In Chapter VII, we computed that, on the basis of pre-war prices, indispensable import requirements would amount to 1,037 million roubles, which, converted to post-war prices, gives the 1,550 millions used in the table.

[d] See the Appendix, p. 191.

the various items expressed as percentages of the probable future exports. The probable exports, it may be recalled, are taken as about 77 per cent of the average for the five-year period just preceding the war.[1]

While the table (p. 135) presents the essential data with reference to the Russian foreign-debt problem, a clearer picture will perhaps be obtained if the same items are presented in a form comparable to that used in ordinary corporation accounts. The Russian nation may be thought of as a corporation with debts to pay. Anyone who is contemplating investing in a Russian reconstruction loan is therefore faced with a problem of investment-credit analysis, just as he is when investing in the securities of an ordinary corporation. Russia will be able to pay interest on a reconstruction loan if she has a *net income* available for the purpose and not otherwise. If Russia has no net income available for meeting the interest on foreign-owned bond obligations, she is just as insolvent as a private corporation which has no net income with which to meet its fixed debt charges. It will perhaps serve to clarify the Russian problem if we present the foregoing items in the form of a corporate income and expenditures account.

The net operating income, out of which debts are to be paid, is equal to only 15 per cent of the fixed charges to be met if the reconstruction loan is not taken into account. With the reconstruction loan included among fixed charges, the percentage becomes 11.

[1] See computations on p. 109.

	Millions of roubles
Gross operating receipts (estimated proceeds of exports)	1,725
Less operating expenses (indispensable imports and service charges)	1,620
Net operating income	105
Less existing fixed charges (interest on nongovernment securities; pre-war railroad, guaranteed and municipal loans, and general state pre-war and war debts)	720
Net income (without provision for interest on a new loan)	−615
Less interest on new 3-billion rouble reconstruction loan	240
Net income	−855

The nature of the Russian debt problem may also be indicated by the following series of statements:

(1) Indispensable imports and services would take 94 per cent of the estimated probable exports, an amount equal to 72 per cent of the actual average exports for the years 1909–13.

(2) Indispensable imports and services *plus* interest on nongovernment securities would require 99 per cent of probable exports—equal to 76 per cent of the actual average exports for the years 1909–13.

(3) Indispensable imports and services *plus* interest on nongovernment securities *plus* interest on the pre-war railroad, guaranteed, municipal, and general state debts would require 113 per cent of probable exports—equal to 87 per cent of the actual average exports for the years 1909–13.

(4) Indispensable imports and services *plus* interest on nongovernment securities *plus* interest on

the pre-war railroad, guaranteed, municipal, and general state debts *plus* interest on the war debt would require 136 per cent of probable exports—equal to 105 per cent of the actual average exports for the years 1909–13.

(5) Finally, if to these obligations be added interest on a 3-billion rouble reconstruction loan, 150 per cent of the probable exports would be required, or an amount equal to 116 per cent of the actual average exports for the years 1909–13.

If one applies the principles of ordinary investment analysis to this situation, it becomes immediately clear that Russia as a corporate entity is insolvent. To be in a reasonably sound financial situation, a corporation should have a net income at least double the interest charges on the bonded indebtedness; anything less is commonly regarded as indicating a relatively weak credit position. And Russia's probable net income is only a small fraction of the fixed charges to be met.

When the net income of a corporation is not equal to the fixed obligations to be met, a financial reorganization is required. The primary purpose of a financial reorganization is always to reduce the overlarge indebtedness to the end that interest charges may be made less than the estimated net income. The same result might, however, be secured by lowering the rate of interest. With this general principle in mind, we may inquire specifically what would be required in the way of financial reorganization if a Russian reconstruction loan is to be a safe investment?

From the foregoing income account, we find that Russia's net operating income, which means her excess of exports over indispensable imports and service charges, is estimated at 105 million gold roubles. The total of Russia's existing foreign-debt obligations to be met out of this income is 720 million roubles, of which 400 millions represent interest on the war debt. If all of these accumulated war and pre-war debts of every kind and description were cancelled outright, Russia would have, on the basis of the computations above, 105 million roubles with which to meet an interest charge of 240 million roubles on a reconstruction loan of 3 billions. If we are to apply the principles of ordinary investment finance to the Russian situation, the interest obligations should not exceed roughly 50 per cent of the net income, thus permitting a reconstruction loan of only 700 million gold roubles.[1] If no margin of safety be required, a loan of 1,400 millions would be the maximum. Russia's reconstruction loans will therefore have to be restricted to approximately this amount. We shall have to hope that the requirements have been exaggerated and that this amount will be sufficient to restore the pre-war scale of operations.

In our estimates of Russia's future trade possibilities, we endeavored to present as favorable a picture as seemed possible. We feel certain that our estimate of Russia's import requirements represents the irreducible minimum. The error in the

[1] For a discussion of concession possibilities, see Chapter X, p. 167.

estimate—if error there be—must lie on the export side. Merely for the sake of the argument let us, therefore, assume for the moment that Russia's exports should again equal the 1913 totals, with imports and service charges, however, equalling only the figures given in the table above.

In 1913 the total exports equalled 1,520 million gold roubles. Multiplying this figure by 1.5 gives, in terms of post-war prices, a total of 2,280 million gold roubles. Subtracting from 2,280 millions 1,620 millions (the amount of the indispensable imports and services) leaves 660 million gold roubles. (Actual imports and service charges for 1913 amounted to 2,200 millions, in terms of post-war prices.) On the basis of this fantastic assumption as to the ratio of imports to exports, Russia would be able to meet the interest on 92 per cent of her total pre-war and war obligations, leaving nothing with which to meet interest on the reconstruction loan. Taking the situation the other way round and starting with a 3-billion reconstruction loan, she could meet interest on that amount and on roughly 60 per cent of her total war and pre-war debt. If the war debts were cancelled she would be able to meet the interest on the reconstruction loan and on all the pre-war obligations.

Returning now to the more reasonable estimates of the income account of the Russian nation as presented on page 137 above, we may state certain definite conclusions with reference to new investments in Russia. No one, with knowledge of the facts, would loan additional money to Russia if the

total of existing foreign obligations are to have an equal claim against Russian revenues. If the existing obligations are to be met, it is clear that new obligations can not be paid. As a pure business proposition, people with money to invest can not be expected to purchase Russian securities if Russia is at the same time held responsible for the interest on the huge accumulated obligations resulting from past borrowings. Even if the most sober, determined, capitalistic government conceivable were established in Russia—a government that fully appreciated the importance of financial integrity among men and nations—it would be altogether impossible for such a government to command credit abroad in the absence of a general financial reorganization.

The only alternative to an outright cancellation of debts, if Russia is to enter into new credit relations with the outside world, is a long moratorium, with a reconstruction loan of roughly 1.4 billion roubles having a prior claim against Russia's international means of payment, namely, the export surplus. Russia's exports, it may be recalled, were estimated on the basis of a return to the pre-war scale of operations. If, over a long period of years, Russian economic life develops beyond that of pre-war days, the debt-paying capacity would, of course, increase. In the next chapter we shall have something to say with reference to Russia's long-run potentialities.

CHAPTER IX

INTERNATIONAL IMPLICATIONS OF THE PROBLEM

As was pointed out in the Introduction, it is commonly argued that Russia is a country of such vast resources that any estimates of her capacity to meet foreign debts, based upon either present or pre-war conditions, are of little pertinence. Given a stable government, reconstruction capital, and modern methods, it is urged that the rapid development of Russia's illimitable resources would in the not distant future enable that country to pay debts of almost any magnitude.

While no one can now perceive Russia's ultimate possibilities, there are certain factors in the Russian economic situation which will prove quite as important as natural resources in controlling both the rapidity of the Russian recovery and the extent of her future economic expansion. The present chapter will be devoted to a discussion of these controlling factors and of the relation of the United States to the problem of Russian reconstruction.

I. CONTROLLING FACTORS IN RUSSIAN RECONSTRUCTION

If Russia's future capacity to pay her international debts were merely a question of man power and of

latent natural resources, the problem would be comparatively simple. At the outbreak of the Great War, Russia possessed a population of 178 millions, and despite her fearful losses a reconstructed Russia would have 150 million inhabitants. In natural resources Russia is enormously rich. Her timber lands are the most extensive in the world; her soil is a vast reservoir of food; her almost limitless plains offer extraordinary opportunities for the raising of live stock, and her rivers and seas abound in fish and other aquatic products. In Turkestan and Trans-Caucasia she possesses a cotton belt comparable in potentialities with that of the American South; in the Ukraine she has very extensive sugar-beet plantations; and in the central part of European Russia lies the great flax-producing regions.

Russia's deposits of iron ore, manganese, copper, gold, platinum, and other useful and precious metals are largely uncharted and untouched. Her coal resources, while by no means the largest in the world, are nevertheless of sufficient importance to furnish adequate supplies of coke and fuel for a large-scale development of the metallurgical industry. Her oil fields, though smaller than is commonly supposed, undoubtedly present rich possibilities.

Before the Great War, Russian agricultural development left much to be desired. Primitive methods of cultivation, and the lack of adequate fertilizers combined to give the lowest average yields of grain per acre in the world. Although Russia had made marked progress in industrial develop-

ment, having in the twenty-year period preceding the war nearly doubled the length of her railways and the output of her manufacturing industries, Russian industrialism was still in its beginnings. Ultimately, therefore—given an opportunity for a recovery of her economic equilibrium—there would seem to be a possibility that Russia might exceed the pre-war scale of operations. It will be recalled that our computations of Russia's export capacity (in Chapter VI) assumed a mere return to the pre-war economic status.

From the point of view of an adjustment of the present Russian debt problem, however, and with an eye to the practical realities rather than to the theoretical potentialities of the situation, we must face squarely certain controlling factors in the Russian problem.

The present Russian problem, apart from political considerations, is much more difficult than it was at the beginning of Russia's industrial era. The problem of recovery and expansion may best be understood by recalling the situation with which Russia was confronted in the critical years during the decade of the nineties. She faced at that time four very closely interrelated problems. The most pressing was that of meeting interest charges on the accumulating foreign indebtedness. Related to this was the necessity of importing gold in order to provide a sound monetary system. Directly involved with the foreign-payments problem was the internal budgetary situation, rendered difficult alike by the interest charges on the foreign debt and the necessity

of floating domestic loans for purposes of internal expansion. Russian internal economic development was the fourth, and in a sense the central, problem, for upon such development largely depended Russia's ability to continue to meet foreign obligations, maintain the gold standard, and keep the budget in balance. Having discussed in previous chapters the difficulties involved in trying to work out these closely interrelated problems in the twenty-five years prior to the war, we may now turn our attention to the present status of these same problems.

First, the Russian currency problem is more difficult than it was in 1890. On January 1 of that year, Russia's total stock of gold amounted to 470 million roubles; today it can not be half that amount. To establish the gold standard in the nineties required imports of gold amounting to 500 million roubles; to put Russian currency back on a gold redemption basis today would doubtless require a larger total. (We do not believe that Russian paper currency can be effectively stabilized unless it is redeemable in gold.) Russia's gold production has never been very extensive, not exceeding sixty or seventy million roubles a year at its maximum; hence a sufficient gold reserve can not be rapidly accumulated from home production alone. Without sound money the restoration of Russia's internal financial system will be very slow, if not impossible, with resulting disastrous consequences to the internal trade of the country, as well as to the government budget.

Second, Russia's budgetary problem is more dif-

ficult than it was in the nineties, despite the elimination, through processes of inflation, of the burden of the domestic debt. Russia's budgetary problem would present serious difficulties for a long time to come, even with a moratorium or cancellation of the foreign indebtedness. The great disorganization of internal trade and industry that has occurred, together with the loss of foreign trade and the destruction of the monetary system, have combined to produce a very complex and difficult budget situation. The financial exigencies which will be involved in connection with the problems of rehabilitating both the Russian monetary and the Russian industrial systems will continually produce grave budgetary crises. It must be pointed out in this connection also that if it proves impossible to reestablish sound money, the consequent disturbing effects of fluctuating currency values, finance, and industry within Russia will be inevitably reflected in increased budgetary difficulties.

Third, Russia's foreign credit requirements are probably not less than those of thirty years ago. At that time Russia could not develop her industrial system without importing from abroad large amounts of basic raw materials and capital equipment. She could not begin the manufacture of her own rolling stock until she had procured the industrial machinery required for such manufacture. If she were to develop her mining, it was necessary first to procure mining equipment from foreign countries. If she were to develop textile manufacturing, she had first to import great quantities of textile ma-

chinery. While Russia has a larger total of industrial equipment now than she possessed in 1890, a considerable part of that which existed at the outbreak of the war has been destroyed, or lost outright through the separation of Poland, and practically all of the rest has become more or less obsolete in kind and depreciated in quality. It will be recalled that the estimated reconstruction loans required amount to 3 billion gold roubles, which figure may be compared with Russia's total borrowings abroad, for political and war purposes, as well as for industrial requirements, between 1894 and 1914 of roughly 4 billion roubles.

Fourth, the problem of meeting foreign payments is much more difficult than it was in the nineties. The computations in Chapter VIII show that if Russia is restored to the pre-war scale of operations she will have a probable favorable balance of trade equal to only a little more than 100 million gold roubles. This figure may be compared with an actual favorable balance of trade from 1886 to 1891 of 320 millions a year, on the price level then obtaining, and an average of about 110 million roubles during Russia's most difficult decade—from 1892 to 1901, inclusive. Even assuming a moratorium or cancellation of war and pre-war debts, Russian foreign payments will present a serious problem. The difficulties that are certain to be met in paying for indispensable imports and services required by a recovering Russia and the interest payments on reconstruction loans will inevitably complicate the maintenance of the internal budgetary problem and

increase the difficulty of maintaining the gold standard. All these factors in turn directly affect the problem of internal industrial development.

Certain other important factors in the Russian situation may best be brought out by a comparison of conditions in Russia with those in the United States during the period of our great agricultural and industrial expansion. Present Russia has often been likened to the United States during the expansion period following the Civil War. A brief comparison will suffice to reveal the superficiality of this alleged parallel.

The present Russian situation is fundamentally different from that of the United States following the Civil War. The great middle west of the United States was settled by some of the most intelligent pioneering stock in the world. In Russia, on the other hand, there is a population at least 75 per cent illiterate—with long centuries of illiteracy on which to build. The difference in psychology and in economic potentialities between the Russian peasant and the American pioneer can not well be overestimated. The American farmer, backed by knowledge and experience acquired in the well-developed lands from which he came, worked in every way possible for the upbuilding of the country. His first thought was the establishment of schools and colleges, both cultural and technical, for the education of his children. The Russian peasant, without background and without vision, is more largely content with life as it is. Even with the deadening influence of the old regime removed and a policy of rural

development inaugurated by a future government, there would still be lacking the educational basis necessary for a rapid development of Russian agricultural production. Russian agricultural expansion must accordingly be slow. A gradual introduction of improved machinery would be helpful; but no revolution in Russian agricultural methods is to be expected. The best that can be hoped for is a slow gradual recovery during the next generation to something like the pre-war scale of production.

Another factor to be noted in comparing the present agricultural problem of Russia with that of the United States a half century ago is the relative density of population. Russia's fertile and accessible regions are already very densely populated. In fact, Russia's productive agricultural areas, even allowing for famine losses, are more densely populated than is our own middle west today—outside the industrial cities. The pressure of population against agricultural resources (at least in European Russia) precludes any such extraordinary rural expansion as occurred in the United States following the Civil War.

On the industrial side, Russia's handicap as a result of the reduction and demoralization of the professional and technical classes might perhaps be rapidly overcome by the importation of trained men from other countries. But there is another handicap which can not thus be eliminated. The United States started upon its period of industrial expansion free from debt incumbrances; while over Russia hangs the incubus of a vast accumulated indebted-

ness, resulting from war and pre-war borrowings. For a generation prior to the Great War, Russia was undergoing an industrial expansion largely based on foreign loans. During the ten years from 1914 to 1923 the greater part of this economic development was lost, leaving a mountain of debt. If Russia's war and pre-war debts had been obliterated along with the economic system which the pre-war borrowings helped to create, there would be some tangible basis for reconstruction credits; but taking conditions as they stand, there is no income foundation on which to build.

In this connection it is interesting to note that in the period of pre-war industrial expansion the rate of increase in Russia's debt-paying capacity was very slow. In fact, the Russian export surplus in the late eighties was almost equal to that of the five-year period just preceding the Great War, after twenty years of internal development. Russian exports were increasing, it is true, but industrial development necessitated, as we have already seen, a steady expansion of imports, thereby preventing any considerable increase in Russia's favorable balance of trade. These imports were not chiefly machinery and like forms of fixed capital; they were raw and semimanufactured commodities, required by Russia's growing factories, and finished consumption goods, required by an expanding and developing population. The export-import ratio can, in the nature of things, increase but slowly.

It is no part of our purpose to contend that Russian debt-paying capacity may not, in the very

long run, greatly exceed that of the years immediately preceding the war. Notwithstanding the great handicaps, educational, political, industrial, financial, under which that unfortunate country now labors, Russia's great natural resources may ultimately be productively utilized, and the ratio of exports to imports greatly expanded. We are interested only in pointing out why the road to such an economic salvation is a hard, long, and tortuous one which will take generations rather than years to traverse. Additional light will be thrown on the problem of Russia's economic future by certain external or foreign trade factors, to the consideration of which we now pass.

Russia's economic recovery and expansion depend upon foreign markets as well as upon internal resources. Russia's economic destiny does not rest entirely in her own hands; internal factors alone do not control the situation. Russia's ability to develop her domestic resources to any such extent as has been suggested will depend in very considerable measure upon her economic relations with other countries. Reference is here made not merely to the willingness of other countries to make loans to Russia, but also to the ability of other countries to purchase the exportable surplus which Russia might conceivably produce. Only as foreign markets for her potential exports of foodstuffs, timber, flax, etc., open up, will such potential exports become actual exports.

Russia's principal markets are in Central and Western Europe. They were in Central and Western Europe before the war, and they must in the very

nature of things lie in Central and Western Europe in the future. In 1913 the three countries of Central Europe (Germany, Austria-Hungary, and Holland) took 45.8 per cent of Russia's total exports, and the countries of Western Europe (France, the United Kingdom, Belgium, and Italy) took 33.4 per cent, a total of 79.2 per cent. The explanation of this situation is perfectly plain: Russia was a producer of foodstuffs and raw materials required by the industrial nations of Central and Western Europe. Neither Southeastern Europe, nor Asia, nor Africa, nor Australia, nor the Americas had any need for Russia's principal products. This will be almost as true of the future as it was of the past.

It was Central Europe most of all that took the excess products of Russia. In Chapter V, dealing with the character and distribution of Russian foreign trade, it was shown that in the generation preceding the war the percentage of Russian exports to Central Europe rapidly increased, while that to Western Europe relatively declined. To recall the figures, in 1894 Russia exported to Western Europe 42.4 per cent of her total exports; in 1903, 39.4 per cent; and in 1913, only 33.4 per cent; while for the same years her exports to Central Europe increased from 35.8 to 37.1 to 45.8 per cent. It was the industrialization of Central Europe alone that made possible the expansion of Russia's export trade. Teutonic stomachs—ever increasing in number—demanded ever increasing quantities of food. This is the primary explanation of Russia's expanding export trade in the pre-war years.

The recovery and expansion of Russia's foreign trade will depend much more upon Germany's demand for Russian exports than upon that of the Allied countries of Western Europe. Indeed, on the side of exports, Germany is more important to Russia than France, Belgium, Italy, and the United Kingdom combined. The future of Russian export trade depends largely upon developments in Central Europe. Russian economic recovery is closely interrelated with the economic recovery of Germany.

Much has been said about the possibilities of an economic alliance between Germany and Russia. While there can be no doubt as to the economic interdependence of Russia and Germany or of the gains that would accrue to those countries themselves if Russian agricultural produce were freely exchanged for the output of German factories, such an economic union would not, as has often been argued, necessarily insure the payment of Russian debts and German reparations to the nations of Western Europe. Russia and Germany can not increase their debt-paying capacity to Western Europe by merely trading with one another. Both Russia and Germany will have to increase exports, especially to the nations of Western Europe, if they are to pay debts there.[1] Only in so far as trading with each other enables both to expand their exports to other parts of the world is the argument valid.

[1] So far as Germany is concerned, payments might to a considerable extent be made by roundabout trading processes, but in the case of Russia the exports would, in the main, have to be made directly to Western Europe.

While on the subject of German-Russian trade relations there is another common contention which deserves some scrutiny. It is conceded that if a nation is to meet foreign debts, it must expand its ratio of exports to imports. It is argued that since Russia constituted Germany's natural export outlet Germany can pay her debts by curtailing her imports from and expanding her exports to Russia. Similarly, in the discussion of Russia's foreign debt problem it is urged that since Germany is the natural market for Russian foodstuffs and raw materials, Russia can pay her debts by expanding her exports to and curtailing her imports from Germany. The difficulty with this argument is that Russia can not pay her debts through the process of expanding exports to and decreasing imports from Germany, if, at the same time, Germany is to meet her reparation obligations by expanding exports to and curtailing imports from Russia.

Russia's ability to develop an export surplus, even of the dimensions indicated in Chapter VIII, will largely depend upon the trend of economic developments in Europe as a whole. Russia needs the assistance of the industrially developed nations in the rehabilitation of her economic system and she also needs an opportunity to sell her products to these nations. The industrial nations likewise need Russia as an outlet for their products; and they need cheap Russian foodstuffs and raw materials. The question sometimes raised whether Russia is more important to the rest of Europe than the rest of Europe is to Russia is of little practical moment;

all that matters is that Russia and the rest of Europe need each other. What Europe must have is a recovery of production and as extensive an interchange of products as possible. In order to open the way to such a recovery the obstacles presented by the debt and reparation problems must somehow be overcome.

The problem of Russian recovery presents a serious dilemma. The industrial nations (Russia's present creditors) desire a recovery of Russia in order that she may again serve as an outlet for their products —an outlet which they consider necessary to the full operation of factories and the elimination of unemployment in Western Europe. At the same time, these countries expect Russia to make payments on her existing debts to them. But it is recognized that for some time to come Russia's exports will be inadequate to cover the cost of indispensable imports, let alone the interest charges on the foreign indebtedness. Hence, it is everywhere conceded that Russia must be given a reconstruction loan with which to rehabilitate her economic system. Before they will extend additional credits, however, the creditor nations naturally insist that Russia must first recognize the sanctity of contract and the inviolability of the property rights of foreigners and must agree to meet her existing obligations. Even if Russia should *honor* her existing debts, she can not pay them.

II. THE UNITED STATES AND RUSSIAN RECONSTRUCTION

Much has been written and more said about the trade and investment possibilities for the United States in Russia. In fact, there is a very widespread belief that the moment the Russians calm down politically and assume a rational outlook on international relations, that vast country will be opened up to an extensive and highly profitable business intercourse with the United States.

It is true that the debt-paying capacity of the nations of Western Europe depends in some measure on Russia's ability to meet her foreign obligations; and what is more important, the recovery of Russia as a purchaser of European products has an important bearing upon the revival of trade and industry in all Europe. It is obvious, therefore, that the United States has an indirect interest in the recovery of Russia. But how much solid basis is there for the great expectations of American exporters who look with covetous eyes upon Russia as a direct market for American products?

The direct trade of the United States with pre-war Russia was very limited. So far as American exports to Russia are concerned, this was primarily due to the fact that most of the manufactured commodities which the United States might have furnished Russia could be bought more cheaply and conveniently, all factors considered, in the industrial nations of Central and Western Europe. So far as imports from Russia were concerned, the explanation is that there were comparatively few things

which Russia produced that were not also produced in ample quantities in the United States. The largest amount of Russian exports to the United States in the whole history of trade relations between the two countries was in 1912, when the total amounted to only 18 million roubles, or approximately $9,000,000.

The direct trade between the two countries has always been one sided, as may be seen from the figures for the twenty-year period preceding the war, given in the following table:

DIRECT TRADE BETWEEN RUSSIA AND THE UNITED STATES

Year	Exports to U. S.		Imports from U. S.		Balance against Russia in millions of roubles
	Millions of roubles	*Percentage of total Russian exports*	Millions of roubles	*Percentage of total Russian imports*	
1894	2	*0.3*	46	*8.2*	−44
1897	3	*.4*	48	*8.6*	−45
1900	3	*.4*	44	*7.0*	−41
1903	5	*.5*	63	*9.2*	−58
1906	6	*.6*	46	*5.7*	−40
1909	11	*.8*	58	*6.4*	−47
1910	9	*.6*	74	*6.8*	−65
1911	13	*.8*	102	*8.8*	−89
1912	18	*1.2*	87	*7.4*	−69
1913	14	*.9*	79	*5.7*	−65

The only way in which Russia could continue to carry on this direct trade with the United States

was by selling more to the countries of Central and Western Europe than she bought from them, using the proceeds to pay for goods purchased in the United States. A considerable volume of American goods also went to Russia by an indirect route, through Germany and Great Britain. These goods were paid for in the same roundabout way as the direct imports.

There is no ground for believing that an extensive trade can be developed between the United States and Russia. Nothing has occurred which materially alters the pre-war status of Russian-American commercial relations. The United States still wants to buy from Russia little beyond the relatively unimportant quantities of furs, hides, bristles, and similar minor products that she bought before the war. The time may come when the United States will require additional Russian products, but that time is not very near. And on the side of American exports to Russia there is no reason why anybody should get worked up over the possibilities. The industrial products which Russia needs can, by and large, be procured more cheaply in the industrial nations of Europe than in the United States. The fact that the nations of Western Europe are naturally large buyers of Russian goods also tends to promote purchases by Russia in Western Europe rather than in the United States.

American banking and industrial interests might, as a condition to the flotation of Russian loans in the United States, lay down the requirement that the funds be used for the purchase of reconstruction

materials in American markets. Such a requirement might very well force Russia to seek reconstruction credits in other countries; for in view of the difficulties of the Russian situation it is of the utmost importance that supplies be procured in the cheapest markets. But assuming that a loan were placed in the United States, the purchasers of these bonds will not be so much concerned over the question as to where Russia shall spend the proceeds as over Russia's ability to pay interest and amortization charges on the loan.

The safety of American investments in Russian securities would depend primarily upon the recovery of Russian markets in Central and Western Europe. Inasmuch as Russian exports to the United States are in the nature of things strictly limited in amount, Russia's ability to meet interest on American loans will be governed by the trade surpluses which she can develop elsewhere. Since the only important market for Russian goods is in Central and Western Europe it follows that Russia can procure the means with which to pay debts in the United States only by developing an export surplus in her trade with the nations of Central and Western Europe. Unless the nations of Central and Western Europe purchase more from Russia than they sell to Russia, the latter can neither cover her unfavorable trade balance with the United States nor meet interest on American loans. To the extent that Russia's future export surplus to Central and Western Europe is diverted to the payment of interest on past debts, Russian ability either to purchase goods or pay interest on

new loans from the United States will be curtailed.

There is another aspect of America's relation to the Russian problem which must be briefly considered, namely, the effect upon the United States of a revival of Russian agricultural competition. It is easy to see the possible bad effects of Russian recovery upon certain of our exports; and it is equally easy to overlook possible benefits in other directions. How important a consideration is a revival of Russian agriculture likely to prove?

American exports of wheat to the continent of Europe were on the wane before the war. Profound economic dislocations produced by the war and its aftermath temporarily gave a great stimulus to American wheat and other agricultural exports, but the tide is already ebbing. Looking forward, exports of American wheat to the continent of Europe will be of dwindling importance, even if Russian wheat production does not regain its former position. As for barley and rye (Russia's other great cereals), the United States has never depended to any considerable extent upon continental markets. Cheap Russian imports of wheat and rye would, however, decrease the present dependence of Germany upon her own cereal and potato production for human food, thus enabling her to use German potatoes and Russian barley to revive her swine industry. This would diminish her dependence upon the imports of American lard and other hog products.[1]

[1] For a detailed analysis, on the basis of which the statements in this paragraph are made, the reader must be referred to another

As against these effects of Russian competition upon certain branches of American agriculture may be set off certain general advantages that would be derived from a recovery of Russia. The revival of production and commerce in Central and Western Europe which would attend the rehabilitation of sound conditions within Russia and the reopening of her trade relations with the rest of Europe would be reflected in expanding trade in manufactured products between the United States and Europe generally, and it would also doubtless improve our European markets for such agricultural commodities as tobacco and cotton.

The United States is vitally interested in the economic restoration of Europe. Complete recovery of Europe is impossible if the fabric of intracontinental economic relations remains shattered; Western Europe can not fully recover as long as Central Europe is depressed; Central Europe is more or less impotent as long as Eastern Europe remains prostrate; and Eastern Europe can not revive without the financial and material aid of Western Europe or the United States. The general recovery of Europe thus involves an endless chain of many links. And Russia is an important link.

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CHAPTER X

CONCLUSIONS

At the Genoa Conference of 1922, called for the purpose of laying the foundation for a genuine economic rehabilitation of Europe, the Russian situation was in the foreground of the discussion. The disastrous effects of the shattered economic life of Central and Eastern Europe upon the trade and industry of Western Europe, had led to the conclusion on the part of most political and business leaders that without Russian and German rehabilitation no rapid recovery from the effects of the war could be expected. A way for the resumption of trading operations with Russia must somehow be found.

It was regarded as self-evident that any Russian government, now in power or henceforth to be in power, must first of all recognize without equivocation ordinary contractual obligations both with reference to the past and the future. Otherwise any negotiations looking toward credit relations with Russia would be futile. It was therefore laid down as a basic principle that Russia must recognize the *legality* of all outstanding foreign obligations whatsoever, whether contracted before or during the war, by the Imperial Russian government, by the Pro-

visional government, by municipalities and local communities or by private companies or individuals —wherever the obligations involved private property which had been confiscated or nationalized by the state.

Recognizing the legality of obligations is, however, a very different matter from paying such obligations. As we have seen, the conferees at the Genoa meeting (see p. 7), realizing in some measure the economic difficulties likely to confront *any* Russian government for some time to come, left the door open to a possible adjustment of Russia's external obligations in conformity with any general plan that might be concluded "between the Allied and Associated Powers for the liquidation or rearrangement of war debts."

The Genoa Conference was entirely right in its implication that the Russian debt problem could not be disassociated from the general problem of war debts and that its adjustment must be made a part of a general program of international debt adjustment. The world implications of the Russian problem are such that it can not be solved by a mere reopening of trade and financial relations with Russia on the part of any single country or group of countries. It is essentially an international affair. The Russian debt situation must be considered as an integral part of the whole international debt impasse.

The primary purpose of this study has been to disclose the pertinent facts and the controlling factors in Russia's foreign-debt situation with a view to ascertaining what adjustments are required. More

specifically, we set out to answer three primary questions: (1) What are the amounts which any Russian government would have to pay abroad on account of the various foreign obligations for which Russia is now held responsible? (2) What is involved in obtaining these amounts within the country by means of budgetary surpluses? (3) What is involved in making these surpluses available abroad and what is the probable Russian capacity to make such payments?

The answer to the first question is that Russia is obligated to pay 13,823 million gold roubles, of which 6,681 millions are for war borrowings and 7,142 millions for pre-war debts, both public and private. The interest charges, making no allowance for amortization, amount to 400 million roubles on the war debt and 320 million roubles on the various pre-war obligations, making a total of 720 million roubles.[1] No allowance is made here for Russian counter claims on account of damage done in Russia by the various operations of the Allied and American troops during and after the Great War. As may be seen from the documents given at the end of this book, neither the Allied powers in Europe nor the United States have, so far, conceded the validity of any such claims. Accordingly we can not here take them into account.

[1] It has been reported in the press that the Soviet representatives have purchased secretly at a very low price a large portion of the Russian bonds held abroad. We are inclined greatly to discount these reports. While some purchases of the sort may well have been made, it is not possible for such operations to be carried on extensively without producing a sharp rise in the prices of Russian securities, thus giving the game away.

The answer to the second question is that, given a return to the pre-war scale of economic activity, Russia might possibly be able to balance her domestic budget and obtain a surplus sufficient to meet the interest on a considerable part of her foreign obligations. The budget problem, however, will present enormous difficulties, notwithstanding the annihilation of the domestic public debt through the processes of monetary inflation.

The answer to the first part of the third question is that Russia can convert domestic budgetary surpluses into the foreign currencies in which foreign payments are required, only by developing an adequate surplus of exports over indispensable imports. This is the only way in which foreign money can be obtained. Russia might conceivably be in a position to raise enough revenue from internal taxation to meet her debts, and yet be unable to meet foreign payments because of an inadequate export surplus. From the point of view of debt-paying capacity, Russia's foreign-trade problem will present in the future as it did in pre-war days much greater difficulties than the internal budget problem.

With reference to the second part of the third question—Russia's probable capacity to meet her foreign payments from an export surplus—we have based our estimates on the assumption that, with the aid of reconstruction loans, Russia does return to the pre-war scale of economic activity. If Russia thus regains her pre-war status, we estimate that her favorable trade balance would not greatly exceed 100 million roubles a year. This amount is sufficient

merely to cover the interest charges on a reconstruction loan of about 1,400 million roubles, allowing for no margin of income above interest obligations. No interest payments would be possible on either the war or the pre-war state debt, nor could any interest or dividends be paid to foreign holders of Russian industrial securities.

If, in the course of years, Russia should succeed in developing her internal resources and in increasing her export surplus, she might ultimately be able to assume some charges on account of pre-war debts. Her ability to succeed in this direction will be governed not merely by the success of internal reforms; it will be controlled quite as much by the rapidity and the extent to which Russia's markets in Central and Western Europe are restored and expanded.

If Russia is to recover economic stability, she must have reconstruction loans; and the interest on these loans must be given priority over all past Russian government obligations. Without a prior lien on Russian income, such loans would have to be regarded as the worst credit risk in the world.

Three alternatives confront the world with reference to the Russian situation: First, there may be a do-nothing policy, with Russia left adrift; second, there may be an exploitation of Russian resources through the medium of concessions, with the problem of existing indebtedness remaining unsolved; third, there may be a real settlement of the whole

Russian debt problem negotiated in a statesmanlike manner.

Russia may be left severely alone, either because the Russian government fails to meet the conditions stipulated by other countries as a basis for resumption of trade and financial relations, or because of a fixed opinion that Russia should be forced to lie in the bed which she has made for herself. Under such conditions, insistence that Russia make any payments on her existing debts would be nothing more than an empty gesture. Russia would, however, survive, and many millions of people would continue to eke out a precarious existence on the great white plains of Eastern Europe. But a thriving agricultural, commercial, and industrial Russia would be quite out of the question. That country's great potentialities would be lost to the world for a period of indefinite duration.

The question of Russia's outstanding indebtedness may be allowed to drift and new foreign capital may be invested in Russia in the form of private concessions, seized upon as a means of exploiting that country's rich natural resources. Concessions represent special claims by the investing groups upon specific resources. The concessionaires not only have a prior, but they have a sole, lien upon the resources specified—a monopolistic franchise. No recognition is given to the existing claims of others upon the income of the country granting the concessions, and but scant attention is paid to the general economic needs of the country itself. The whole history of the concession business—in the Orient, in

Persia and the Levant, and in Latin America—is a record of sharp bargaining by special profit-seeking interests. Such is the essence of the concessions that have already been offered by the Soviet regime in Russia.

A policy of concessions affords no real solution of the Russian problem. Some foreign capital might find its way into the country on this basis, and considerable internal development would occur; but Russia could not possibly by this means be restored as an economic entity capable of meeting its existing obligations to the rest of the world. Concessionaires would be concerned only with intensively exploiting the particular resources over which they have acquired exclusive rights during a certain number of years; they would not be concerned with assisting Russia in obtaining a balanced national budget, a sound monetary system, or a favorable balance of trade. At best, concessions would make of Russia another China or another Turkey. If we wish to see Russia become another vast area within which foreign capitalists struggle for control of natural resources and seek the aid of their respective governments in support of their various claims, the opportunity may be at hand, for left to herself Russia may be powerless to resist pressure in that direction. If we wish to see the various parts of Russia's broad domain become spheres of influence, protectorates, and finally virtual colonies of rival foreign governments and capitalistic groups, we need merely seize the present opportunity. But if we are to embark

upon such a policy let it be with open eyes and without illusions as to where it leads.

The rest of the world, as a third alternative, may take the stand that the Russian problem is to be settled by direct negotiation with Russia just as soon as a responsible Russian government accepts the principles which ordinarily govern economic relations among civilized nations. Such a settlement would be based fundamentally on two assumptions: First, that Russia remain a sovereign nation, meeting her foreign obligations by ordinary trade and financial methods and, second, that in the interest of all concerned she be restored to her proper place in the economic fabric of nations. With this approach to the problem, the first formidable task to be resolutely undertaken is a thorough-going adjustment of Russia's financial obligations as a part of a comprehensive program of European reconstruction.

APPENDIX

APPENDIX

METHODS AND SOURCES

In the preparation of this study, it was found necessary to apply methods of statistical analysis, which require somewhat more extended explanation than it was thought expedient to include either in the text or in the footnotes. This Appendix is, therefore, devoted to a description of the methods used and of the sources of information and interpretation from which the data brought together in the study have been obtained.

I. SOURCES OF INFORMATION

The basic statistical data used in this study have come principally from the official publications of the Imperial Russian government. The most authoritative collection of data on Russian foreign trade is found in the annual publication of the Russian customs duties department, entitled "Obzor Vnieshney Torgovli Rossii" (Review of Russian Foreign trade). Similarly, on the questions of Russian public finance the most authoritative source of data is the Yearbook of the Russian Ministry of Finance, and on agriculture, the best source is the Yearbook of the Russian Ministry of Agriculture. These three publications were used in preparing this study, sup-

plemented by statistical yearbooks published by the Russian Council of Representatives of Trade and Industry, and the "Statistical Abstract for the Principal and Other Foreign Countries," issued by the British Government. The pre-war official data of the Russian Government are as complete and reliable as those of other European countries.

For the interpretation of these data and for materials shedding light upon their meaning we have used the annual reports of the Russian State Comptroller and the explanatory memoranda to the annual budgets, prepared by the Russian ministers of finance. These two official publications were designed to show, from year to year, the official estimates of the economic and financial situation in Russia. Extensive use has also been made of other official and semiofficial publications of the various departments of the former Imperial Russian government, such as Professor Lyashchenko's study of the Russian grain trade, and the annual surveys of the various phases of Russia's economic life, published under the name, "Narodnoye Khozaystvo" (National Economy).

Professor P. P. Migulin's three volumes on Russian state credit, "Russky Gosudarstvenny Kredit" (Kharkov, 1899–1902), and Professor Ivan Ozerov's two volumes on the science of finance, "Osnovy Finansovoy Nauki" (Moscow, 1911–14), consulted and used extensively in this study, are standard works in the field of Russian economics and finance. Other works by Professor Ozerov, of which some use has been made, are more popular in nature.

The volume on "Russia; Its Trade and Commerce" (London, 1918) is a symposium of papers, prepared for publication in Great Britain by a group of Russian experts and edited by Arthur Raffalovich, a noted Russian economist, closely associated for years with the work of the Russian Ministry of Finance. "La Dette Publique de la Russie" (Paris, 1922) is a similar work, published in French, and devoted to the various phases of the Russian public debt. P. V. Ohl's "Innostrannyie Kapitaly v Rossii" (Foreign Capital in Russia, Petrograd, 1922) is a very carefully prepared study of foreign private investments in Russian business enterprises. S. O. Zagorsky's "Voina Poslye Mira" (War after Peace, Petrograd, 1917) is a brilliant study of tariff policies with special reference to Russia.

Besides these works, many current publications have been consulted, principally the files of the "Viestnik Finansov" (Messenger of Finance), the official organ of the Russian Imperial Ministry of Finance, and of the "Ekonomicheskaya Zhisn" (Economic Life) the official economic organ of the Soviet government. Finally use has been made of papers contained in the files of the various divisions of the United States Departments of State and of Commerce and of the Federal Reserve Board.

II. RUSSIA'S FOREIGN DEBTS

It is impossible to determine accurately what portion of Russia's pre-war state debt is now owned by foreigners. The total amount of the country's pub-

lic debt for each year is, however, known from official reports, and certain other data are available, furnishing a basis for an estimate of the distribution of the debt as between Russian and foreign owners of securities.

In the pre-war budgets of the Russian government two sets of figures were given in connection with the interest payments on the state debt. The first set indicated the total amount paid out during the year on account of the public debt, and the second represented the portion of this amount paid out by foreign banks and Russian consulates abroad as interest to foreign holders of Russian securities. Using these figures we can determine approximately the extent of Russia's foreign State debt during the twenty-year period preceding the war. The table on page 177 shows the method used.

The first column of the table indicates the gradual increase of Russia's total indebtedness at home and abroad, and the second column the amounts paid out by the Russian government every year as interest and amortization on both foreign and domestic debt. In the next column are shown the amounts paid out abroad on account of the debt, thus indicating roughly the portion of the total Russian public debt held outside the country; this proportion is shown in percentages in the column which follows. In the last column are shown the changes in the portion of Russia's total state debt held outside the country, obtained by multiplying the percentages in the next-to-the-last column by the total debt.

THE RUSSIAN STATE DEBT, 1895–1914

(In millions of roubles)

Date	Total debt on Jan. 1	Total annual payments on account of debt	Payments abroad on account of debt		Foreign debt [a]
			Amount	*Per cent of total payments*	
Jan. 1					
1895	5,775	278.6	62.1	*22*	1,270
1896	5,896	262.7	67.7	*26*	
1897	6,068	288.1	68.9	*24*	
1898	6,122	278.1	61.2	*22*	
1899	6,122	266.6	98.0	*37*	2,265
1900	6,183	266.9	113.7	*43*	
1901	6,193	276.5	115.8	*42*	
1902	6,392	290.2	128.6	*44*	
1903	6,643	288.7	130.5	*45*	
1904	6,651	297.7	138.2	*46*	3,059
1905	7,081	306.5	146.9	*48*	
1906	7,841	356.5	170.5	*48*	
1907	8,625	380.7	190.6	*50*	
1908	8,725	385.9	202.3	*52*	
1909	8,850	396.4	180.5	*46*	4,071
1910	9,054	406.8	175.4	*43*	
1911	9,014	407.2	143.6	*35*	
1912	8,957	393.7	183.3	*47*	
1913	8,858	424.4	184.8	*44*	
1914	8,811	402.1	194.0	*48*	4,229

[a] The figures in this column represent the amounts of foreign indebtedness at five-year intervals.

The figures in the last column of this table—derived by comparing *foreign* interest and debt payments with *total* debt payments at home and abroad—may not represent the precise amounts of Russia's state debt held by foreigners at the various periods indicated, since the amounts paid abroad on account of the debt often fluctuated because of political and other considerations. It affords, however, a good first approximation. This method has been used by the research experts of the ministry of finance, as well as by such economists as professors Prokopovich, Migulin, Ozerov, and others.

Some of the figures in the last two columns of the table require scrutiny, especially those dealing with the first part of the period under consideration. With the total amount of the debt remaining the same in 1898 and 1899, and the whole amount paid out on account of interest smaller in 1899 than in 1898, it is difficult to explain the sharp jump in the payments abroad—from 61 million roubles, or 22 per cent of the total, in 1898, to 98 millions, or 37 per cent, in 1899. Professor Prokopovich, in a memorandum prepared for the Institute of Economics, suggests that the reason for this may lie in the fact that, prior to the establishment of the gold standard in Russia, some of the coupons of the Russian bonds held abroad were presented for payment in Russia and were applied to foreign purchases. By 1899, however, the gold standard was sufficiently established for the foreign holders of Russian securities to be willing to receive their interest payments in their respective countries.

We are inclined to accept this explanation, and on this basis we estimate that the portion of Russia's public debt held abroad on January 1, 1895, was no less than 30 per cent of the total, giving for that year the figure of 1,753 million roubles used in the text of the study. (See p. 17.) Our estimate of 4,200 million roubles for the amount of Russia's pre-war foreign debt outstanding at the time of cancellation is based on the figures obtained for January 1, 1914.

The estimate of Russia's foreign pre-war state debt, at which we have arrived, is substantially in agreement with the figures used by G. A. Pavlovsky, in a paper read before the Russian Economic Association of London on July 12, 1920, and with the figures given in a memorandum on the Russian debt prepared for the Genoa Conference by a group of Russian financiers in Paris. The Moscow "Economic Life" in its issue of November 18, 1921, estimates the portion of the Russian pre-war state debt held abroad as something over 4 billion roubles.

The total amount of guaranteed loans outstanding before the war is given by Mr. Pavlovsky as 2,122 million roubles, and of municipal loans as 563 millions. We accept these figures, as well as Mr. Pavlovsky's estimate of the distribution of the bonds as among Russian and foreign holders. According to this estimate, slightly over 40 per cent of the guaranteed and about 75 per cent of the municipal loans are held by foreigners, giving the figures of 870 millions and 422 millions respectively, used in the text.

Our figure for the foreign portion of the pre-war

state debt is reduced by 350 million roubles, which we estimate as a possible deduction on account of some apportionment of parts of the pre-war debt to Poland and Finland. We are making no allowance for the Chinese indemnity still due Russia.

We thus obtain the figure of 5,142 million as the total of pre-war state, guaranteed, and municipal loans for which Russia is held responsible. This estimate is considerably under the figure given in the memorandum prepared for the Genoa conference, mentioned above, which indicates 6 billion roubles as the total of Russia's pre-war indebtedness on these three accounts.

The figure for the war loans is taken from the estimate used in "La Dette Publique de la Russie," which is given as 7,681 million roubles. This figure is generally accepted outside of Russia as the amount of Russia's war indebtedness, though the Moscow "Economic Life" in the issue quoted above gives a figure of 8,749 millions. We accept the figure of 7,681 millions as the nominal amount of Russia's foreign war loans, but we reduce it by one billion roubles, in order to obtain the amount for which Russia is actually held responsible. The reason for this reduction is the fact that Russian gold shipped abroad during the war (640 million roubles to the Allied nations and 120 million to Germany under the treaty of Brest-Litovsk, which was also turned over to the Allies after the Armistice) plus Russian bank balances in the creditor nations and Russian property there equal at least a billion roubles.

In the classification of these various obligations by countries, we have definite figures only for the war debt. In "La Dette Publique de la Russie" (p. 54) this classification is given in original currencies of the creditor countries. Converting these amounts into roubles at par we obtain the following figures, in millions of roubles:

Great Britain	5,375
France	1,492
United States	553
Japan	247
Italy	14
Total	7,681

As for the pre-war indebtedness, we have several widely varying estimates made in the creditor countries themselves, as well as by Russian experts. On the basis of these various estimates, we arrive at the geographic distribution of the Russian pre-war and war debts given in percentages on pp. 21–22.

It should be borne in mind that the exact figure of Russia's foreign indebtedness and its precise distribution among various countries may never be known and, even if it could be determined with sufficient accuracy, would be of merely historic interest. Some day an international tribunal will have to pass upon the various and conflicting claims of Russia's creditors and arrive at some compromise figures. We have sufficient evidence to-day, however, to warrant the belief that such compromise figures will not be less than those given in this study.

III. PRIVATE INVESTMENTS IN RUSSIA

The only reasonably authoritative study of foreign investments in Russian private corporations and enterprises is Professor P. V. Ohl's "Innostrannyie Kapitaly v Rossii" (Foreign Capital in Russia), published in 1922 by the Petrograd Institute of Economic Research. According to Professor Ohl's figures, the total foreign investment in Russian industrial, banking, and commercial enterprises at the time of the revolution was 2,243 million roubles. Of this amount, 89 per cent consisted of shares, the dividends on which varied from year to year, and 11 per cent represented bonds bearing a fixed rate of interest.

By countries, these investments were divided as follows:

Country	In thousands of rubles	*As percentage of total*
France	731,747	*32.6*
Great Britain	507,480	*22.6*
Germany	441,593	*19.7*
Belgium	321,603	*14.3*
United States	117,750	*5.2*
Holland	36,457	*1.6*
Switzerland	33,480	*1.5*
Sweden	23,772	*1.1*

The rest of the investments belonged to Denmark, Austria, Italy, and Norway, each of which owned less than 1 per cent. These percentages were used by us in the text of the study to indicate the dis-

tribution by countries of the various types of Russia's indebtedness.

By groups of enterprises, the amounts of these foreign investments in thousands of roubles were divided as follows:

Mining	834,320
Metallurgy	392,710
Buildings	259,431
Banks and other credit institutions.	237,200
Textiles	192,494
Chemicals	83,593
Commercial enterprises	80,715
Food products	37,331
Paper	31,405
Transportation	26,650
Timber and wood working	25,737
Mineral products	18,239
Animal products	14,450
Insurance	8,700

Thus over half of the total investments (54.7 per cent) was in mining and metallurgy. The French held a predominant position in these branches of industry; they owned or controlled nearly three-quarters of Russia's total output of coal and pig iron.

These figures cover the whole of the territory of the former Russian Empire. According to Professor Ohl's estimates, over 10 per cent of the foreign investments was in the portions of the former empire which are not under the control of the Soviet regime and in which, therefore, the policy of nationalization was not applied. The total value of nationalized investments is given by him as 2,007 million roubles. Since we are assuming an eventual return to Russia of the whole territory of the former empire, with the

exception of Poland and Finland, the amount of the foreign private investment for which Russia is held responsible is somewhat larger than the above figure. Allowing, however, for possible errors in calculation and preferring to err on the side of conservatism, we are taking the round sum of 2 billion roubles as the total of foreign investments in private Russian enterprises and corporations that is outstanding at the present time. This is the figure used in the text of the study.

IV. THE BALANCE OF PAYMENTS

The subject of Russia's balance of payments has never received an adequate treatment at the hands of Russian experts. Professor I. Ozerov in his standard work on finance says:[1] "It is possible to calculate the balance of trade with a fair degree of accuracy, but with regard to the balance of payments, we can not but give up all attempts in this direction. Our balance of trade is in our favor, but it does not determine whether or not we shall lose our gold. Because of her foreign indebtedness, Russia has to pay large amounts of gold on her foreign loans. Then our tourists spend much money abroad. It would be very difficult to make an estimate of these expenditures and the result would be very doubtful."

He points out that the best one can do with regard to Russia's balance of payments is to indicate the trends it has followed. Precisely this sort of generali-

[1] Ozerov, I., The Elements of Finance, Vol. 2, p. 287, 1914.

zation is attempted here for the twenty-year period preceding the war.

Russia's balance of payments was made up of the following factors:

Russia received payment for—	Russia made payments for—
Exports of commodities and specie	Imports of commodities and specie
Emigrant remittances	Banking, insurance, shipping and similar charges
Private and official foreign expenditures in Russia	Interest on State, guaranteed and municipal loans held abroad
Minor items	Interest and dividends on private industrial and commercial investment
	Private and official expenditures of Russians in other countries

Balance of Trade.—The most important items in this account are the imports and exports of commodities. The figures of Russia's export and import trade, used in this study, are taken mainly from the "Review of Russian Foreign Trade." These figures cover the whole of the former Russian Empire, with the exception of Finland, the figures for which were given separately in the Russian foreign trade statistics.

The method of computing the value of the exports and imports has been f. o. b. for exports and c. i. f. for imports. The customs records were taken as the basis of computation. These records consisted of the declarations filed by the shippers of exports and consignees of imports. In the case of principal commodities, quoted on the Bourse, the average

price quotations were used as means of checking the accuracy of the computations.[1]

Shipping.—The method of evaluation used by the Russian Customs—f. o. b. for exports and c. i. f. for imports—obviously makes it impossible to segregate the amount paid out for shipping, marine insurance, commissions, etc. No separate records of these were kept, the amount being included in the totals.

While the proportion of Russian sea-borne trade was very large, practically all of it was carried in foreign bottoms. In 1912, of the total of 15,392,000 long tons of cargo shipped from the different Russian ports only 1,275,000 tons, or 8.3 per cent, were carried in Russian bottoms.[2] Thus, over 90 per cent of the shipping charges on the Russian exports was paid by the purchasers of these commodities to non-Russian carriers, and this item can not figure in Russia's international balance. The small amount paid to Russian carriers was undoubtedly more than offset by probable underestimates of the value of exports.

Some Russian economists, who have paid special attention to this phase of the subject, believe that the balance of trade, as shown by the figures of the customs duties department is an under rather than an over estimate. Professor Ozerov says:[3] "The favorable balance of trade is usually given in less favorable terms than it really is, because the customs

[1] Introduction: Review of Russian Foreign Trade, volume for 1915.

[2] Russian Statistical Yearbook; Associations of Trade and Industry, Moscow, 1914.

[3] Ozerov, I., The Elements of Finance, vol. 2, p. 288, 1914.

authorities are far more interested in a precise evaluation of imports than they are of exports." And V. I. Pokrovsky [1] demonstrates that the Russian balance of trade during the five-year period 1890–95 was at least 13 per cent higher than the official figures show.

As for the shipping and other charges on the imports they are, under the above-quoted system of evaluation, included to all intents and purposes in the figures for the total; and, since they also represent amounts due to non-Russian carriers and companies, they in this manner appear automatically in the international balance.

For purposes of an international balance sheet, therefore, the balance of trade (see table, p. 27) may be considered as sufficiently accurate, and as reflecting more or less satisfactorily the shipping and marine insurance charges and other items incidental to foreign trade.

Bullion and Specie.—As may be seen from our table on Russia's foreign trade, the bullion and specie movement scarcely affected the trade balance after 1901, when Russia completed her monetary reforms and inaugurated the policy of making every effort not to disturb her gold reserves.

Credit Side of the Balance Sheet.—In discussing Russia's balance of payments in Chapter III, we assumed that the exports of goods and specie constituted the sole item on the credit side of the Russian international balance sheet. Russia ren-

[1] Pokrovsky, V. I., The Stability of the Russian Balance of Trade, St. Petersburg, 1896.

dered no services to other countries. Her foreign investments (in some countries of Asia) were so small, that the returns may be considered as negligible. Her portion of the Chinese Boxer indemnity was also very small. It is true that Russian emigrants in the United States and other countries sent money to their relations in Russia, and that foreign governments and travellers spent money in Russia. The emigrant remittances, however, were probably fully offset by the value of the property that the new emigrants took out of Russia, for the bulk of Russian emigration is of recent origin and was very heavy in the period, 1905–13. As for foreign expenditures in Russia, they were never as large as Russian expenditures abroad, and only the estimated difference between the two need appear in the balance sheet.

Invisible Debits.—On the debit side of the balance sheet we have the items enumerated in the graphic figure used in Chapter III. What all these items amounted to it is impossible to estimate precisely. During the nineties, several attempts were made to work out Russia's balance of accounts, and it was generally considered that the total payments abroad, exclusive of the imports of goods and specie, amounted to about 300 million roubles a year. This is the figure given by Professor Migulin.[1] Of this amount he attributes from 50 to 100 million roubles to tourist expenditures. The figures commonly accepted for that period placed these expenditures at about 60 million a year.

[1] Russian State Credit, vol. 3, pt. 2, p. 294, 1902.

We take this figure of 300 million a year as the average amount of Russia's invisible debits during the first decade of the twenty-year period preceding the Great War, without attempting to break it up into its component parts. Taking into account the increase in foreign investments in Russia during the second decade of the period, the growth of the foreign debt, and the general development of the country we estimate that the average payments during the years 1904–08 were about 400 million roubles, and during the last five years before the war were about 440 millions.

In our table of Russia's invisible debits during the last five years preceding the Great War we take the interest on the state debt as the approximate average of the actual payments made abroad during this period. (See table, p. 177.) The payments on municipal loans are taken at 5 per cent, since the terms of issue varied between $3\frac{1}{2}$ and 7 per cent. The interest on the guaranteed loans is taken at $4\frac{1}{2}$ per cent. The dividends and interest on private investment are taken at a general rate of $4\frac{1}{2}$ per cent. The actual returns were probably higher, but a part of the income undoubtedly went back into investment without ever leaving the country.

We place the tourist and official expenditures abroad at 70 millions. We believe that this figure makes allowance for the deduction of foreign expenditures in Russia and may be taken as a net figure. The various service charges to Russia we place at 25 millions, which is less than one per cent of Russia's total foreign trade turnover.

A check on the total of these estimates (440 million roubles) is found in the following statement made by a former Russian Minister of Finance:[1] "Russia's balance of trade in 1912 showed an excess of exports over imports amounting to only 347 million roubles, i.e., almost 100 million roubles less than the average credit balance for the preceding three years. . . . Under these circumstances, our trade balance receipts could not cover all our foreign payments, and Russia's international balance, both in 1912 and 1913, was not in our favor."

A still more interesting check may be obtained by comparing the total Russian expenditures abroad on account of the invisible debits during the twenty-year period preceding the war with the total trade and specie balance and the increase in the foreign debts in millions of roubles:

Total favorable trade and specie balance for 20 years	4,119	Foreign payments 1894–1903 (at 300 millions per year)	3,000
Increase in various forms of foreign indebtedness	4,100	Foreign payments 1904–1908 (at 400 millions per year)	2,000
		Foreign payments 1909–1913 (at 440 millions per year)	2,200
Total	8,219	Total	7,200

The discrepancy of one billion roubles is accounted for partly by Russian deposits in foreign countries, which on the eve of the war amounted to over 500 million roubles and partly by the expenditures in

[1] Explanatory Memorandum to the Draft Budget for 1914, pt. 2, p. 85, 1915.

floating foreign loans, which were sold below par but are shown here at par.

Future Payments.—In estimating Russia's future payments on account of the various invisible items in her balance sheet (Chapter VIII) we apply drastic reductions to the nondebt items. Taking the estimate of the service charges and foreign expenditures before the war as 95 million roubles, we convert it into post-war prices by multiplying it by 1.5, thus obtaining a figure of about 140 million roubles. This figure we divide in half, thus making our estimates of future service charges and private and government expenditures only 50 per cent of the pre-war figure.

In estimating interest and dividends on private industrial investment in Russia, we follow the same method and apply the same reduction. Pre-war state, guaranteed, and municipal loans are taken at approximately the same figures as before the war, without any conversion into post-war prices. Interest on the war loans is taken at a general rate of a little under 6 per cent. The interest charges on a new 3 billion rouble loan are taken at 8 per cent.

V. THE GOLD RESERVES

The gold standard was established in Russia in 1897. For a decade prior great efforts were made toward the accumulation of a sufficiently large stock of gold. The growth of Russia's gold fund (held at home and abroad) in millions of roubles during that decade was as follows:[1]

[1] La Dette Publique de la Russie, p. 204, 1922.

1888	390	1893	852
1889	430	1894	895
1890	470	1895	912
1891	576	1896	964
1892	642	1897	1,095

During the first few years of the present century Russia lost some of her accumulated gold, but she later recovered it, and the total reserves at home and abroad continued to increase up to the time of the Great War, as may be seen from the following table [1] (stated in millions of roubles):

1900	843	1908	1,169
1901	737	1909	1,220
1902	709		
1903	769	1910	1,415
1904	909	1911	1,450
		1912	1,436
1905	1,032	1913	1,556
1906	927	1914	1,695
1907	1,191		

VI. POPULATION OF RUSSIA

According to the last complete census, the population of the Russian Empire in 1897 was 128 millions. On the basis of this census, the Russian central statistical committee has from year to year calculated the population of Russia, taking into account the estimated normal growth of population, emigration, and other factors. On January 1, 1914, according to the above calculation, the population of the Russian Empire was 178 millions.[2]

Our estimate of the population of Russia during her reconstruction period is based on the above figures.

[1] Ibid., pp. 205–6.

[2] Yearbook of the Russian Ministry of Finance, 1915, pp. 568–69.

From 178 millions we subtract 15 millions, which is the population of Russian Poland and Finland. This leaves us 163 millions as the population of the Russian Empire, less Poland and Finland, on the eve of the Great War. Had there been no war, this figure would have increased during the past decade to nearly 200 millions, since Russia's normal increase of population before the war was from 1.5 to 2 per cent a year. The war and the revolution, however, have had the following effects on the population of Russia: Adults have been killed in the Great War, the Civil War, and the revolutionary terror; the death rate among both adults and children increased, because of general privations, disease, and famine; and the birth rate has been reduced. While no statistical data are available, there is reason to believe that the net loss of population resulting from all these factors has been no less than 10 per cent, which reduces the figure of the present population to about 145 millions. In this figure are included the 7 millions of people who constitute the population of Latvia, Esthonia, Lithuania, and Bessarabia—all of which, we assume, will again become parts of the economic territory of reconstructed Russia. The figure also includes no less than 2 millions of Russian refugees, who may be expected to return to Russia. This means that the population of that part of the former Russian Empire which is included in the boundaries of the Soviet Republic is about 136 millions.[1]

[1] The Soviet government's census of Russia, taken in 1920, places this population at 132 millions.

Looking ahead four or five years and allowing for some natural increase of population (perhaps less than 1 per cent a year) it seems safe to assume that the population of reconstituted Russia in the near future would be no less than 150 millions.

Some Russian economists are inclined to question the accuracy of the official figure for Russia's population as of January 1, 1914. Professor Prokopovich [1] believes, for example, that the figure of 178 millions is about 10 per cent too high. He explains the error on the ground that in calculating the yearly increase of population, the central statistical committee failed to take into account most of the internal migrations, especially from the rural to the urban districts.

On this basis, the population of the Russian Empire (less Poland and Finland) on the eve of the war was no more than 145 millions. If we decrease this figure by 10 per cent, because of the probable net loss of population described above, the present population of the same territory is about 130 millions. Subtracting from this 9 millions for the Baltic states, Bessarabia, and the refugees in other countries, we get 121 millions as the population of Soviet Russia, which is 11 millions less than the Soviet census figure.

We are inclined to accept the official figure of the pre-war population, which (as stated above) leads us to believe that the population of reconstructed Russia in the near future will be no less than 150 millions.

[1] Opyt Ischisleniya Narodnaho Dokhoda (An Essay on National Income in Russia) Moscow, pp. 64–65, 1917.

DOCUMENTS

DOCUMENTS

I. TEXT OF THE SOVIET DECREE ON THE ANNULMENT OF FOREIGN DEBTS, JANUARY 21, 1918 [1]

1. All national loans concluded by the governments of Russian landowners and Russian bourgeoisie enumerated in specially published lists are annulled (annihilated) from December 1, 1917. The December coupons of these loans are not subject to payment.

2. In the same manner are annulled all guarantees given by the said governments on loans for different undertakings and institutions.

3. Unconditionally and without exceptions, all foreign loans are annulled.

4. Short-term obligations and series of the national treasury remain in force. Interest will not be paid on them but the obligations themselves have currency on an equality with credit notes.

5. Citizens of small means owning the annulled national papers of the internal loans for a sum not exceeding ten thousand (10,000) rubles (nominal value) shall receive in exchange certificates of the new loan of the Russian Socialistic Federative Soviet Republic for a sum not exceeding ten thousand (10,000) rubles. The conditions of the loan will be determined separately.

6. Deposits in national savings banks and interest on them remain unaffected. All obligations of the annulled loans belonging to savings banks are exchanged for book debts of the Russian Socialistic Federative Soviet Republic.

7. Cooperative local self-governing and other benevolent or democratic institutions owning obligations of the annulled loans will receive compensation on the basis of rules elaborated by the Supreme Soviet of the national government together with the representatives of these institutions, if it shall be shown that these obligations were acquired before the publication of the present decree.

[1] Translated from the Gazette of the Temporary Workmen-Peasants Government, Jan. 28, 1918.

NOTE.—Local organs of the Supreme Soviet of the national government shall determine what local institutions come under the head of benevolent or democratic.

8. The general management of the liquidation of national loans shall be carried out by the Supreme Soviet of the national government.

9. The entire work of the liquidation of loans shall be carried out by the national bank, which shall also have the duty of registering immediately all those having in their possession obligations of national loans and other interest-bearing paper, whether or not subject to annulment.

10. The soviets of workmen's, soldiers', and peasants' deputies shall form commissions in cooperation with the local soviets of popular government to determine which citizens are of moderate means.

These commissions have the right to annul in entirety savings not gained by toil, even if these savings do not exceed five thousand (5.000) rubles.

[Signed] President of the Central Executive Committee,
Y. SVERDLOV.

II. GENOA CONFERENCE MEMORANDUM, MAY 2, 1922 [1]

The problem of the restoration of Russia, with a view to the reestablishment of peace over the whole of the Continent of Europe, has been considered in the most serious and sympathetic manner. There is a general and sincere desire that friendly relations should be restored among all the nations and that the Russian people may take its historic place among the European Powers.

Russia in the past has been an important element in the economic system of Europe. But today her exhaustion is complete after the events which have drained her resources for the last eight years, and her elimination from the European economic system has added to the troubles from which the world is suffering.

Every year the world deficiency in food and raw material due to the failure of Russian supplies is being made up from other sources.

In due course, the gap would be filled so far as the rest of Europe is concerned, for trade, like water, finds new channels when the older channels are blocked. But in Russia itself, privation, misery, and famine would continue to spread and thus constitute a plague spot of increasing menace to the European system. Such a fate for Russia and for Europe the Powers are deeply anxious to avert.

The reconstitution of Russia must take place above all in the interests of Russia herself. But Russian prosperity can not be revived without the assistance of the capital and the commercial experience of the West. As soon as the feeling of security has been revived in Russia—that is to say, when the nationals of foreign countries have guarantees that they can resume their former industrial or commercial and agricultural undertakings and start new ones, with the certainty that their property and their rights will be respected and the fruits of their enterprise secured them, they will hasten to afford Russia the benefit of their technical knowledge, their work, and their capital.

Russia is a country of great possibilities. Economic disaster has paralysed but has not destroyed her resources. If Russia and the

[1] From British Parliamentary Papers, Cmd. 1667.

Russian people are to recover, the resources of Russia must be developed. Her agriculture, which is fundamental to her economic system, must be restored; her mines must be reopened; and her factories must be set to work again. The other nations of the world played a great part in the development of Russia. They will play that part again as soon as Russia establishes conditions which command their confidence.

The needs of Russia are so manifold that they can only be met by once more throwing open the Russian market to foreign manufacturers and traders. To-day Russia is urgently in need, not only of food and clothing, medical supplies, and other necessaries of normal existence, but also of locomotives, wagons, agricultural implements, tools, machinery, and port appliances. If these goods are not supplied to Russia, her transport system will fall to pieces, her industries will rapidly become derelict, and the yield from the land will steadily fall.

All these supplies can be furnished by the industrial countries. As soon as security in Russia has been reestablished for former owners and debts are recognized, the importation of these necessaries will recommence. Capital will flow into Russia the moment confidence begins to revive. And at the same time foreign enterprise and experience will be available for the reconstruction of the country.

There is not a country which is unable to render an effective contribution to the work of reconstructing Russia; some by financial help, others by the rapid resumption of the manufactures or public utility undertakings which they owned there, and still others by the skilled workers which they will be able to send there. All the countries represented at Genoa have indicated their willingness to cooperate in this work, each according to its capacity.

Their governments also are ready to hasten this restoration. It will be necessary to overcome the hesitation on the part of business men, who will fear the loss of capital which they might sink in a country thus deprived for the time being of the normal means of production. As soon, however, as the first pioneers have succeeded in their enterprise, others will follow in their footsteps. The object and the justification of government assistance will be to make these first attempts succeed.

Measures have already been taken in several countries for this purpose, and Russia will be able to obtain the benefit of these measures as soon as it is possible to conclude with Russia an arrangement in conformity with the clauses which follow.

Several countries of Europe have decided to establish an international corporation with an initial capital of £20,000,000. Its aim is to finance reconstruction and development undertakings in Europe which, without assistance, would have difficulty in procuring the necessary funds. This sum may seem small in comparison with the magnitude of the work to be done. But it only includes the capital subscribed through the national companies formed in the leading countries. Behind it stand the resources of all these countries, resources which are available for financing operations approved by the international corporation.

In addition to this, certain countries are in a position to advance immediately substantial sums to those of their nationals who will trade with Russia or settle there for that purpose. To these facilities must be added the private credits which manufacturers who have assurance that their undertakings can be successfully resumed in Russia will not fail to receive from the national banks.

The British government can guarantee under the Trade Facilities Act the capital or interest required for capital undertakings, overseas as well as at home, to develop economic reconstruction in Europe. If the Soviet government is prepared to take the steps needed to encourage enterprise, then this act can be applied to Russia. The sum authorized by this act was £25,000,000. If necessary, Parliament will be invited to increase the amount to be made available.

In addition to the facilities offered by this act, there is an export credits scheme for financing the export of British goods. Under this scheme, the British government is authorized to guarantee transactions up to £26,000,000. Of this £26,000,000, £11,000,000 has been pledged. The British government will be prepared to invite Parliament to extend the duration of the act in question.

France, by reason of the effort which she is obliged to make in order to restore her own devastated regions, can not at this moment afford direct financial assistance for the reconstruction of Russia. Nevertheless, the French government accepted at Cannes the principle of taking a part in the International [Financial] Corporation equal to the English part.

France can send to Russia seeds of all sorts. Negotiations have already taken place with the soviets on this subject. Detailed plans have been prepared for the despatch and use of tractors. Several thousands of these tractors could be sent with the necessary technical personnel. Machines and technical personnel can be

sent in order to establish veterinary stations and institutions for agricultural study.

With regard to transport, France can offer rolling stock of approximately 1200 locomotives, 25,000 goods wagons, 3500 railway carriages and vans. It would be possible to form a special company for undertaking repairs, and repair shops could be let to the company which would supply the technical personnel.

Finally, French industrialists, who in great numbers have contributed to the wealth of many parts of Russia, would be able to restart their establishments as soon as they received the necessary guarantees. These industrialists would undoubtedly find in France or abroad, thanks to the confidence which they inspire, the necessary capital and the technical staffs which will be needed.

Italy, by subscribing 20 per cent of the capital of the international corporation, purposes to render substantial financial help as regards both the immediate aims of this organization and its future development. She is also ready to support every undertaking which is set up in order to reestablish transport by rail or water and to foster the marketing of Russian produce. She is also ready to contribute through her agricultural organizations and by her experience to the restoration of agriculture and to participate in cooperation with Russia in the industrial and agricultural re-equipment of the country.

Offers of help are also held out by Japan. The Japanese government, with a view to encouraging trade with Russia, has granted a credit of 8 million yen to the Russo-Japanese Trading Company. The Japanese government has also the intention of taking further measures, if it deems it necessary, with the object of furthering trade relations between the two countries.

Time is an indispensable factor in the reconstruction of Russia, but the important thing is to make a start. As soon as the first impulse has been given, as soon as the first pioneers have been able to settle in Russia and to make known the fact that they have been successful, and have demonstrated to themselves and their compatriots that the way which had been closed for so long is open and safe, others will follow and their number will be all the greater because the road has been barred so long.

In these circumstances, the following conditions, dealing with the more important questions requiring adjustment, are submitted to the Russian delegation by the delegations of Italy, France, Great Britain, Japan, Poland, Roumania, Switzerland and Sweden,

represented on the subcommittee of the first commission. The final approval, however, of the French delegation is reserved until it receives its instructions from its government.

Clause I

In accordance with the terms of the Cannes resolution that all nations should undertake to refrain from propaganda subversive of order and of the established political system in other countries than their own, the Russian Soviet government will not interfere in any way in the internal affairs and will refrain from any action which might disturb the territorial and political *status quo* in other states. It will also suppress all attempts in its territory to assist revolutionary movements in other states.

The Russian Soviet government will use all its influence to assist the restoration of peace in Asia Minor and will adopt an attitude of strict neutrality between the belligerent parties.

Clause II

(1) In conformity with the Cannes resolution, the Russian Soviet government recognizes all public debts and obligations which have been contracted or guaranteed by the Imperial Russian government or the Russian provisional government or by the Soviet government itself towards foreign Powers.

Being desirous of facilitating the immediate reconstruction of Russia and the rehabilitation of her credit, the creditor powers are willing to make no claim upon Russia at present, either as to capital or interest, for the repayment of the advances made to the Russian governments during the war.

(2) The Allies can admit no liability for the claims against them set up by the Russian Soviet government for loss and damage suffered during the revolution in Russia since the war.

(3) When an arrangement is concluded between the Allied and Associated Powers for the liquidation or rearrangement of war debts, the Allied governments concerned will submit to their parliaments measures for reducing or modifying the amount due by the Russian Soviet government on similar lines and with due regard to the economic and financial condition of Russia; but these measures will be conditional on the renunciation by Russia of the claims mentioned in paragraph 2.

(4) Where responsibility for liabilities contracted by the Russian Soviet government or its predecessors toward foreign nationals has been assumed by a foreign government, the liabilities will be treated on the same footing as private debts in accordance with Clause IV.

(5) The provisions of this clause will not apply to balances standing to the credit of a former Russian government in any bank situated in a country of which the government made advances to a former Russian government, or assumed responsibility for any Russian government loan floated in that country between 1st August, 1914, and 7th November, 1917. Such balances shall, without prejudice to the rights of third parties, be transferred to the government concerned. The liability of the Russian Soviet government in respect of war debts shall be *pro tanto* reduced.

Clause III

All financial claims by other governments upon the Russian Soviet government, and by the Russian Soviet government upon other governments, excepting those dealt with in these clauses, shall, subject to any special arrangement which may be made, remain in suspense until the agreement referred to in Clause II, paragraph 3, has been concluded. The claims shall then be extinguished.

Nevertheless, this claim shall not apply to claims on behalf of the nationals of other Powers on account of the action in Russia of the Russian Soviet government, or to claims on behalf of Russian nationals on account of the action in other countries of the governments of those countries.

Clause IV

In conformity with the general principle admitted by all governments, the Russian Soviet government recognizes its obligation to fulfil the financial engagements which it or its predecessors, that is to say, the Imperial Russian government or the Russian Provisional government, have contracted *vis-a-vis* foreign nationals.

Clause V

The Russian Soviet government undertakes to recognize, or to cause to be recognized, the financial engagements of all authorities

in Russia, provincial or local, as well as all public utility enterprises in Russia contracted before this date *vis-a-vis* the nationals of other Powers, unless at the time when the engagement was contracted the territory in which the authority or enterprise was situated was not under the control of the Russian Soviet government, or of the Russian Provisional government, or of the Russian Imperial government.

Clause VI

The Russian Soviet government agrees to conclude an arrangement within twelve months of the coming into force of this clause with the representatives of foreign holders of bonds and bills issued or guaranteed by the Russian Soviet government or its predecessors, for insuring the restarting of the service of the loans and the payment of the bills. This arrangement will cover terms and dates of payment, including remission of interest, so that adequate account may be taken both of the actual conditions in Russia and of the necessity for her reconstruction.

The said arrangement shall apply as far as possible to all foreign holders without distinction of nationality.

In case a collective agreement can not be reached, the benefit of an arrangement concluded with any particular group may be claimed by all other foreign holders.

If no such arrangement as is referred to in paragraph 1 can be concluded, the Russian Soviet government agrees to accept the decision of an arbitration commission. This commission shall consist of a member appointed by the Russian Soviet government, a member appointed by the foreign holders, two members and a president appointed by the president of the Supreme Court of the United States, or failing him by the council of the League of Nations or the president of the Permanent Court of International Justice at the Hague. This commission shall decide all questions as to the remission of interest and as to the mode of payment of capital and interest and will take into account in so doing the economic and financial condition of Russia.

The procedure laid down in this clause as to Russian government bonds and bills shall also be applied in the case of the financial obligations referred to in Clause V.

Clause VII

In order to encourage the restarting of foreign economic activity in Russia and to permit foreign states to furnish to Russia the aid indicated above in the introduction and thereby to facilitate the restoration of the country, the Russian Soviet government accepts the following arrangement with respect to private property:

Without prejudice to its freedom, as recognized in the Cannes resolution, to regulate its system of ownership, internal economy, and government, and to choose for itself the system which it prefers in this respect, the Russian Soviet government recognizes its obligation, in accordance with the said resolution, to restore or compensate all foreign interests for loss or damage caused to them when property has been confiscated or withheld.

In cases in which the previous owner is not enabled to resume possession of his former rights, the Russian Soviet government will make an offer of compensation. If no agreement is come to between the previous owner and the Russian Soviet government as to the nature and amount of the compensation, the previous owner shall be entitled to submit to the Mixed Arbitral Tribunal referred to hereafter the question whether the compensation offered by the Russian Soviet government is just and adequate.

If the Mixed Arbitral Tribunal decides that the compensation is just and adequate, it must be accepted by the previous owner; but if the tribunal decides that the compensation is not just and adequate, and the Russian Soviet government and the previous owner are still unable to reach an agreement as to the compensation, the previous owner shall receive from the Russian Soviet government a grant of the enjoyment of the property on terms not less favourable in all matters relating to its use and disposition than the rights he previously possessed; provided, however, that where the Mixed Arbitral Tribunal decides that the grant of the enjoyment of the property is impracticable and that compensation must be given, the amount, if not agreed, shall be fixed by the Mixed Arbitral Tribunal and shall be payable in bonds.

In cases in which the Russian Soviet government can not give back the property it shall not be entitled to hand it over hereafter to other parties. If the Russian Soviet government proposed at a later date to hand it over as above, a preference shall be given to the previous owner.

If the exploitation of the property can only be insured by its

merger in a larger group, the preceding provision shall not apply, but the previous owner shall be entitled to participate in the group in proportion to his former rights.

The term "previous owner" shall include Russian financial, industrial, and commercial companies, which at the date of nationalization were controlled by nationals of other Powers, or in which at the same date such nationals possessed a substantial interest (either as shareholders or bondholders), if the majority of the foreign interests so desire. It shall also include a foreigner entitled to the beneficial use of property in Russia which was vested in a Russian nominee.

In cases in which a claim is not put forward in virtue of the preceding paragraph, a claim for compensation in conformity with this clause may be put forward by any foreign national interested in a Russian company in respect of injury or loss suffered by the company.

In the settlement of claims and in awards of compensation in respect of private property, provision shall be made for the protection of claims which third parties possessed against the property.

In cases where damage has been done to the property in consequence of the action or negligence of the Russian Soviet government, compensation in accordance with the principles of international law shall be assessed by the Mixed Arbitral Tribunal.

Clause VIII

Provision shall be made by the Russian Soviet government for enabling foreign nationals to enforce their claims against private persons in Russia.

If the payment of the sums due has been rendered impossible by the action or negligence of the Russian Soviet government, the liability must be assumed by that government.

Clause IX

Pecuniary compensation awarded under Clause VII will be paid by the issue of new Russian 5 per cent bonds for the amount fixed by the Mixed Arbitral Tribunal.

The terms as to the payment of interest on these new bonds, and the terms as to their amortization, shall be similar *mutatis mutandis* to those for old bonds as fixed by the arbitration commission referred to in Clause VI.

Clause X

Mixed arbitral tribunals shall be appointed for each country to decide questions as to the compensation to be paid under these clauses. These tribunals shall consist in respect of each country of one member appointed by the Russian Soviet government, one member appointed by the government of the national concerned, and a president appointed by the president of the arbitration commission referred to in Clause VI.

Clause XI

The restarting in the shortest possible time of enterprises of all kinds which belonged to foreigners before the events of 1917, and the establishment of new enterprises being of the greatest importance for the rapid reconstruction of Russia, the Russian Soviet government undertakes to take all necessary measures for ensuring forthwith the protection of the person, the property, and the labour of foreigners.

For this purpose the administration of justice in Russia shall be provided for as set out in Article 8 of the recommendations of the experts in London, and foreigners shall be allowed to reside and trade in Russia in accordance with the provisions of Articles 9–17 of the said recommendations.

Clause XII

Special arrangements will be made in agreement with the Russian Soviet government for the settlement of questions relating to the liquidation of pre-war contracts between Russian nationals and foreigners, and questions relating to prescriptions, limitations, and foreclosures.

Clause XIII

The Russian Soviet government will restore to the Roumanian government the valuables deposited at Moscow by the said Roumanian government.

III. RUSSIAN REPLY TO GENOA CONFERENCE MEMORANDUM, MAY 11, 1922 [1]

Before entering into an examination of the articles of the memorandum signed by a group of Powers and transmitted with a letter from M. Schanzer, president of the political subcommission, to the Russian delegation on the 2nd of May, the Russian delegation, to its great regret, is obliged to observe that this memorandum, while not offering the equitable solution of the Russian problem which had been expected, represents in some respects a retrogression from the conditions offered to Russia in the agreement of the Villa d'Albertis of the 20th April, and even from the memorandum of London itself. Moreover, the contents of the memorandum of the 2nd May constitute a marked deviation from the lines laid down for the conference of Genoa by the resolutions of Cannes.

The inviting powers, in summoning Russia to the present conference at the same time as the other states, gave as their reason the necessity of "restoring its vitality to the European system, which is now paralyzed." The means of attaining this end were to be "the economic reconstruction of Central and Eastern Europe." It was unanimously agreed that Russia was the state whose economic reconstruction was of the greatest interest to Europe and to the whole world.

In its first memorandum, replying to the memorandum of London, the Russian delegation drew the attention of the conference to the fact that the problem of reconstructing Russia ought to lie at the foundation of its labours. The Russian delegation declared its willingness to consider, in concert with the other Powers, this fundamental problem, whose solution would give to the world's industries 140 millions of consumers and an immense quantity of raw materials, and so contribute to the relief of the crisis, the unemployment and the misery created by the world war, the intervention, and the blockade.

The Russian delegation, in accordance with the invitation of Cannes, came to Genoa with a whole series of plans and proposals

[1] From British Parliamentary Papers, Cmd. 1667.

concerning the credits and the loans required by Russia in return for real guarantees. They brought also a detailed account of the juridical guarantees already realized in Russian legislation assuring to foreign nationals, who desire to give Russia the benefit of their technical knowledge and capital, protection in their property, their rights, and the profits of their enterprises. Moreover, the Russian delegation had intended to present a list of industrial, mining, agricultural, and other concessions which it desired to grant to foreigners.

But up to now, this, the most important side of the Russian problem and of the economic problem of the world, has not been even touched upon. The efforts of the Russian delegation to bring this question before the committee of experts appointed to consider the Russian problem have met with an insurmountable opposition. The committee of experts has laid down, as a condition preliminary to any examination of these questions, Russia's obligation to accept liability for the settlement of state debts and the claims of private individuals.

This method of procedure can only condemn to sterility the most important part of the work of the conference. Instead of beginning by examining those aspects of the Russian problem which would provoke the least controversy, the committee of experts—as likewise the memorandum of May 2nd—have placed in the foreground the question which, because of its political and legal complexity, must inevitably give rise to the hottest discussions.

In consequence of this original mistake, the problems of the future, which interest everyone, have been subordinated to the interests of the past, which affect only certain groups of foreigners. The assertion that a recognition of the debts of former Russian governments and the claims of private individuals is a condition essential to the cooperation of foreign capital in resuscitating the credit of New Russia is contradicted by the fact that many foreign capitalists have already given their collaboration to Russia without waiting for a settlement of the question of debts. It is not this nor that solution of the question of debts which will make capital flow into Russia, but the guarantees which the Russian government may be able to furnish for the future, and the international consolidation of this government which would result from its *de jure* recognition.

The attempt to throw suspicion upon the attitude of the Russian government in the eyes of future creditors, because it is unwilling

to subscribe blindly to proposals which are too burdensome, is not unprejudiced. The repudiation of the debts and obligations contracted by the former regime, abhorred as it was by the Russian people, can in no wise indicate in advance the attitude of soviet Russia, the child of the revolution, toward those who would come with their capital and technical knowledge to help in its reconstruction. On the contrary, the fact that the Russian delegation, in the matter of the settlement of debts, takes into serious account the interests of the Russian people and of the economic possibilities of Russia, proves that it desires only to assume engagements which it is sure that Russia will be able to fulfil.

It is worthy of remark that more than one of the states represented at the conference of Genoa have in the past repudiated debts and obligations contracted by it; more than one state has confiscated and sequestrated the property of foreigners or of its own nationals without having been subjected on that account to the ostracism of which soviet Russia has been the victim.

It is difficult to explain by the nonfulfilment of some financial claims the obstinacy which certain Powers employ to exclude Russia from international economic and political life and to deny her equality of treatment. If one considers what this attitude has cost the world, what it has cost the states which inaugurated it, and what it has cost Russia herself, where for almost five years its dreadful consequences have been endured, one finds it difficult to believe that the interests of Russian bondholders or of former owners of nationalized property are the only things at stake.

The incidents of the last few days, especially with regard to the matter of the restitution of nationalized property to its former owners, show plainly that a political question has been grafted on to one which is purely material. The conflict which has developed at Genoa around the Russian problem reaches farther and deeper. The political and social reaction, which has followed in most countries the years of war, seeks in defeating soviet Russia, which represents the collectivist tendencies in social organization, to attain the complete triumph of capitalistic individualism. The Russian delegation has refused, and still refuses, to introduce into the discussions in progress any form of political tendency, but it can not refrain from pointing out that this attempt to bring about at Genoa the triumph of the programme of a party or of a social system is contrary to the letter and to the spirit of the first resolution of Cannes. If the labours of the conference are threatened,

the whole responsibility will fall upon those Powers which, opposing alone the general desire for an agreement, place the interests of certain social groups above the common interest of Europe.

The Russian delegation observes that the preamble of the memorandum of May 2nd tries to render plausible the idea that a prolonged economic isolation of Russia will injure herself only, while the rest of Europe will in any case find means of escape from its economic difficulties. The purpose of this assertion is clear: Russia, who needs the collaboration of other Powers for her economic recovery, must endure the sacrifices which this collaboration entails.

This assertion is contrary to public opinion, which, through the lips of competent men and through repeated manifestations of the working masses, has proved that Russia can not be replaced by any substitute, and that her absence from the world market causes disturbances which no artifice can remedy. The place of Russia can not be occupied by anyone but Russia herself. The isolation of Russia has political consequences no less disastrous than its economic ones. The security of Europe and the peace of the world demand the abolition of this abnormal state of affairs. As long as Russia remains in a sort of economic and political quarantine this temporary state of affairs can not but encourage military adventures on the part of certain states, near neighbours to or distant from Russia, who, assuming the rôle of "police of European civilization," are seeking to trouble the peace and secure possession of the territories and riches of Russia and of the other soviet republics. That is why the solution of the Russian problem will not advance by a single inch unless the Powers assembled at Genoa become fully alive to the idea that the sacrifices which they demand of Russia must find a counterpart in similar sacrifices from themselves.

In its letter addressed to Mr. Lloyd George on the 20th April, the Russian delegation makes important concessions, raising at the same time the question of granting credits and loans to the Russian government. At the first session of the committee of experts, the Russian delegation requested a detailed examination of this question.

But the committee of experts, as has been stated above, refused this proposal. Nor does this question of such considerable interest to Russia meet with any reply in the memorandum of May 2nd. Instead of credits to be granted to the Russian government, the preamble of the memorandum specifies the credits which the various

governments are ready to grant to those of their nationals who may wish to trade with Russia. But this question, however interesting it may be for the private traders of other countries, has nothing to do with the question raised by the Russian delegation. Moreover, these private merchants and manufacturers will not be able to utilize the credits to the extent desired unless the Russian government is assured of the financial means necessary to revive the productive forces of the country—a condition indispensable to commercial relations of any magnitude between Russia and the other states. If the Russian government lacks the financial resources or credits to revive industry and agriculture, to restore its means of transport and to establish a stable currency, stopping the issue of paper roubles of steadily depreciating value, commercial relations of any importance with foreign countries will encounter very great difficulties. Furthermore, the measures aiming at the revival of Russia can only be applied by the government itself or according to a plan drawn up beforehand. The Russian delegation had intended to submit to the conference such a plan worked out by competent men of science and industry.

The Russian delegation observes, not without a certain astonishment, this striking contrast in the memorandum of May 2nd—that to the principal question of the restoration of Russia are devoted general considerations containing no precise proposals, while the question of the settlement of state debts and private claims is presented in the form of an agreement which attempts to prescribe the most minute details.

The Russian delegation is no less surprised to find that in this financial contract, and at the head of all its clauses, are political clauses which have never heretofore figured in the discussions of the Russian delegation with the other delegations.

Selecting from the Cannes conditions, which have a political character, and which by the way have been accepted by the Russian government, a single condition, namely the 5th, which deals with subversive propaganda, the memorandum ascribes to it at the same time a new meaning and makes it a one-sided obligation for Russia. Yet the Russian government has proved more than once that the true subversive propaganda, through the organization and despatch of armed bands, has been conducted by certain countries, neighbours of Russia and even signatories of the memorandum.

Giving a new scope to this Cannes condition, the memorandum

demands that Russia should "suppress upon her territory all attempts to aid revolutionary movements in other countries." If, however, by this formula the memorandum means to forbid the activities of political parties or organizations of workers, the Russian delegation can not accept such a prohibition unless the activities in question transgress the laws of the country.

In the same clause the memorandum requests that Russia should "abstain from all action tending to disturb the political and territorial *status quo* in other states." The Russian delegation considers this demand a veiled attempt to make Russia recognize treaties concluded by other states. But that is a political question which Russia is ready to discuss at the proper moment with the Powers involved.

Another political question artificially introduced into the memorandum is that of the relations between Roumania and Russia, contemplated in Clause 13. As this question forms part of the totality of political, territorial, and other questions at issue between Russia and Roumania, it can not be examined separately.

But the Russian delegation expresses above all its surprise at seeing raised in the memorandum the question of peace in Asia Minor—all the more so as in spite of the proposal of Russia that Turkey should be invited to the conference of Genoa, she was excluded from it. The presence of Turkey at the conference is precisely what would have contributed to the reestablishment of peace in Asia Minor. Russia, on her part, in view of her relations of close friendship with Turkey, would have contributed to the achievement of this desired end.

As regards the strict neutrality which the memorandum of May 2nd requires from Russia in the war which is being waged on Turkish territory, this can be only such neutrality as law and international conventions demand from all the Powers.

Passing to the other clauses of the memorandum, the Russian delegation is obliged to observe that all of the claims set forth therein result from changes produced by the Russian revolution.

It is not for the Russian delegation to justify this great act of the Russian people before an assembly of Powers, many of whom count more than one revolution in their own history; but the Russian delegation feels obliged to recall that principle of law according to which revolutions which are a violent rupture with the past carry with them new juridical relations in the foreign and domestic affairs of states. Governments and systems that spring

from revolution are not bound to respect the obligations of fallen governments. The French convention, of which France declares herself to be the legitimate successor, proclaimed on the 22nd December, 1792, that "the sovereignty of peoples is not bound by the treaties of tyrants." In accordance with this declaration, revolutionary France not only tore up the political treaties of the former regime with foreign countries, but also repudiated her national debt. She consented to pay only one-third of that debt, and that from motives of political expedience. This was the "tiers consolide," the interest on which did not begin to be regularly paid until the commencement of the nineteenth century.

This practice, which has been elevated to the rank of a doctrine by eminent legal authorities, has been followed almost universally by governments born of a revolution or a war of liberation.

The United States repudiated the treaties of its predecessors, England and Spain.

On the other hand, the governments of the victorious states did not hesitate during the [Great] War, and especially on the conclusion of the treaties of peace to seize the property of the nationals of the vanquished states situated upon their territory and even upon foreign territory.

In conformity with these precedents, Russia can not be obliged to assume any responsibility whatever toward foreign Powers and their nationals for the cancellation of public debts and for the nationalization of private property.

Another question of law: Is the Russian government responsible for damages caused to the property, rights, and interests of foreign nationals by reason of civil war, apart from those which were caused to these persons by the acts of the government itself—that is, the cancellation of debts and the nationalization of property? Here again the juridical doctrine is entirely in favour of the Russian government. Revolution, assimilated like all great popular movements, being akin to *force majeure*, does not confer any title to indemnity upon those who have suffered from it. When foreign nationals, supported by their governments, demanded from the Tsarist government the repayment of the losses caused to them by the revolutionary events of 1905 and 1906, the government rejected their demands, basing its refusal upon the fact that not having accorded damages to its own subjects for similar losses, it could not place foreigners in a privileged position.

Thus, from the point of view of law, Russia is in no wise obliged

to pay the debts of the past, to restore property, or to compensate their former owners, nor is she obliged to pay indemnities for other damages suffered by foreign nationals, whether as a result of legislation adopted by Russia in the exercise of her sovereignty, or as a result of the revolutionary events. Nevertheless, in a spirit of conciliation and in order to arrive at an understanding with all the Powers, Russia has accepted under the reserve of reciprocity the principle contained in the third Cannes resolution. This reciprocity, that is, the obligation resting on every government to pay compensation for damages caused by its acts or its negligence, has been confirmed in the official interpretations of the third Cannes resolution to which reference has already been made in the first Russian memorandum.

With the exception of the war debts which, having a specific origin, were extinguished by the very fact that Russia, having withdrawn from the war without participating in the division of its advantages, could not assume its costs the Russian delegation has declared itself ready to accept liability for the payment of public debts provided that the damages caused to Russia by the Allied intervention and the blockade be recognized.

In law, the Russian counterclaims are infinitely more justified than the claims of the foreign Powers and their nationals. Practice and theory agree in imposing the responsibility for damages caused by intervention and blockade upon the governments which instituted them. Without citing other cases, we shall limit ourselves to recalling the decision of the court of arbitration at Geneva of September 14, 1872, condemning Great Britain to pay to the United States 15.5 million dollars for the damages caused to that country by the privateer "Alabama," which in the Civil War between the northern and southern states gave help to the latter.

The intervention and the blockade of the Allies and neutrals against Russia constituted official acts of war on their part. The documents published in Annex 2 of the first Russian memorandum prove with evidence that the chiefs of the counter-revolutionary armies were such only in appearance and that their real commanders were the foreign generals sent especially for that purpose by certain Powers. These Powers not only took direct part in the civil war, but they were its authors.

Nevertheless, in its desire to reach a practical agreement, the Russian delegation, as a result of the discussions which took place at the Villa De Albertis, adopted a policy of most far-reaching

concessions, and declared itself prepared to renounce conditionally its counterclaims, and to accept the engagements of the former governments, in exchange for a number of concessions on the part of the Powers, the most important being real credits placed at the disposal of the Russian government amounting to a sum to be agreed upon in advance. Unfortunately, this engagement of the Powers has not been carried out. The memorandum says nothing of definite credits which the signatories would be ready to grant to the Russian government; and the credits which they promised to extend to their nationals for the purpose of trading with Russia are of an optional character.

Moreover, the memorandum raises again the whole question of the war debts whose cancellation was one of the conditions of the renunciation by Russia of her counterclaims. The memorandum likewise discusses the moratorium and the cancellation of the interest on pre-war debts, leaving the final decision of this question to the competence of a court of arbitration, a procedure contrary to the provisions even of the memorandum of London, instead of settling it in the agreement itself.

Thus the signatories of the memorandum, by withdrawing from its obligations, recognize that the opposing party is equally free from his. In this manner the laborious negotiations which resulted in the agreement of the Villa De Albertis have been rendered vain. The Russian delegation does not wish to seek out the Powers upon whom the responsibility for this may fall, but in any case it does not fall upon Russia.

The negotiations have been rendered still more difficult by the obstinacy of certain states in imposing upon Russia, by Article 7, obligations inconsistent with her social system and with Article 1 of the Cannes resolutions.

Clause 7 begins with a fine preamble, recognizing the sovereign right of Russia to organize as she thinks fit within her own territory her system of property, her economic system and her Government; but the text of the clause itself is in flagrant contradiction with its preamble. The sovereignty of the Russian state becomes the plaything of chance. It can be defeated by the decisions of a mixed court of arbitration composed of four foreigners and one Russian, which will decide in the last instance whether the interests of foreigners are to be subject to the restoration, restitution, or compensation.

On this subject, the Russian delegation must call attention to the

fact that in the trial of disputes of this kind, the specific disagreements will inevitably end in opposing to one another two forms of property, whose antagonism assumes today for the first time in history, a real and practical character. In such circumstances there can be no question of an impartial superarbiter, and according to the sense of Clause 7 the part of superarbiter would inevitably be filled by the other interested party, a thing which would beyond a doubt lead to the intervention of foreigners in the domestic affairs of Russia, and would be tantamount to an abolition in practice of the inviolability of the system of property existing in Russia recognized at the beginning of Clause 7.

Furthermore, the Russian delegation considers that Clause 7 has no practical character. Its presence in the memorandum of May 2nd can only be explained as a result of the desire to satisfy class or party feeling, and not by any means as the result of an adequate knowledge of the state of affairs in Russia. To say nothing of the perpetual conflicts to which this clause would give rise between the claimants and the Russian government, between the latter and foreign Powers, Clause 7, far from creating between the Soviet regime and the capitalist system that mutual tolerance which is the condition of fertile collaboration, will only tend to poison their relations. Foreigners who went into Russia, not in consequence of a friendly agreement with the Russian government to work under the protection of Russian laws, but in virtue of the decisions of a mixed arbitral tribunal, would soon feel a general hostility toward themselves.

The Russian government, on its part, in order to enable the former owners of nationalized property to apply their technical knowledge and their capital to the economic restoration of Russia for their own advantage, has recognized in their favor a preferential right in every case where the former property is to be granted as a concession, whether under the form of a lease, a mixed company formed by the state and the foreign capital, or under any other form providing for the participation of foreigners.

The Russian delegation similarly observes that the interested states, whilst reserving all their solicitude for a small group of foreign capitalists and manifesting an inexplicable doctrinaire intransigence, have sacrificed a large number of foreign capitalists desirous of profiting by the facilities and guarantees offered them by the Russian government to return and work in Russia, and they have sacrificed as well the interests of a multitude of small holders

of Russian bonds and small foreign proprietors whose property has been nationalized or sequestrated and whom the Russian government had intended to include among those the justice and merit of whose claims she recognized. The Russian delegation can not refrain from expressing its surprise that powers like France, in which are found the majority of the small holders of Russian bonds, should have insisted most upon the restitution of property, thus subordinating the interests of the small holders of Russian bonds to those of certain groups who demand the restitution of property.

The Russian government sent its representatives to the conference of Genoa in the hope of achieving an agreement with the other states which, without affecting the social and political system established as a result of the revolution and of the intervention victoriously repulsed, would bring about not an aggravation but an improvement of the economic and financial situation of Russia and would at the same time pave the way to an amelioration of the economic situation of Europe.

But this object presupposed that the foreign Powers who organize the armed intervention in Russia would cease to hold toward Russia the language of a victor to the vanquished, Russia not having been conquered. The only language which could have led to a common agreement was that which states adopt toward each other when negotiating upon a footing of equality.

Russia is still prepared, in order to assure the success of the agreement, to consent to important concessions to the foreign Powers, but on the absolute condition that equivalent concessions in favor of the Russian people shall be made by the other contracting party. The popular masses of Russia could not accept an agreement in which concessions were not balanced by real advantages.

Another issue suggested by the difficulties of the situation would be the reciprocal translation of the claims and counterclaims between Russia and the other Powers arising out of the past. But in this case also, the Russian government is determined to respect the interests of the small bondholders.

If, nevertheless, the Powers desire to examine the solution of the financial disputes between themselves and Russia, inasmuch as this question demands a deeper study of the nature and extent of the claims presented to Russia and a more exact appreciation of the credits that could be placed at her disposal, this task might be entrusted to a mixed commission of experts appointed by the con-

ference whose work should begin at a date and in a place to be determined by mutual agreement.

The Russian delegation observes that the great obstacle which has, up to the present time, impeded the labors of the conference, is the fact that the idea of reciprocity expressed above is not yet sufficiently shared by all the Powers. But the Russian delegation can not refrain from emphasizing the fact that the negotiations which have taken place have opened the way to a rapprochement between Soviet Russia and other Powers. The Russian delegation is of opinion that the disagreements which have arisen in the course of the solution of the financial differences between Russia and the other Powers ought not to constitute an obstacle to the solution of other problems which can and ought to be solved here at Genoa—problems interesting all countries—and especially the problems involved in the economic reconstruction of Europe and of Russia and the consolidation of peace. Russia came to the conference with conciliatory intention, and she still hopes that her efforts in this direction will be crowned with success.

IV. REPORTS AND RESOLUTION OF THE HAGUE CONFERENCE, JULY, 1922 [1]

I. REPORT OF THE SUBCOMMISSION ON PRIVATE PROPERTY

A. The first subcommission has to report with sincere regret that as a result of its labours it is plain that no satisfactory arrangement on the subject of private property can be recommended at the present conference. No other deduction can be drawn from the facts which have been established at its joint meetings with the Russian delegation; and as the Russian delegation has stated that it has no new facts or proposals to bring before the first subcommission, the latter is driven regretfully to conclude that the impossibility of recommending an arrangement in the present conference is final and complete.

B. The subcommission approached its task in a wholly practical spirit. It approached the task not merely from the point of view of trying to arrive at a practical settlement of the outstanding questions relating to the interests in Russia of foreign nationals, but also from the point of view of assisting in and securing the reconstruction of Russian industry, the creation and development of which in the past has owed so much to foreign capital and foreign enterprise. The subcommission has explored the situation with thoroughness and with a determination to subordinate, as far as possible, juridical questions and questions of principle to practical considerations, and with the firm intention to find, if that were possible, any solution which would meet the realities of the position.

C. The subcommission has held four long meetings with the Russian commission. It has held ten meetings at which the Russian commission were not present.

D. It was agreed at the first meeting with the Russian commission what were the problems at issue and the general lines of discussion to be followed. The field of enquiry was mapped out as follows: The various classes of property which had to be considered fell

[1] From British Parliamentary Papers, Cmd. 1724.

into three main groups; first, industrial and commercial undertakings; secondly, immovable property, in so far as this was not included in the first classification; and thirdly, such miscellaneous items as trade and private debts, bank balances, shares in companies, and other forms of personal property.

E. The first question to be considered was the extent to which previous owners of industrial and commercial undertakings and other immovable property could be enabled to resume possession of their property. The next question was the general conditions under which property would be enjoyed after the previous owner had resumed possession. The subcommission had then to consider questions of compensation other than restitution and the mode of assessing and paying such compensation. It was apparent that little value could attach to lengthy or detailed discussions as to conditions under which owners would operate their undertakings unless it was previously agreed to what classes of property the conditions would apply and that in such cases owners would in fact be given the option of resuming possession of their undertakings.

F. The subcommission was anxious that there should be the fullest and frankest discussion on all these questions, and that there should be a complete interchange of all relevant information. It is perhaps convenient at this point to refer to a request, which was tendered by the Russian commission, to be supplied, not merely with general information as to the aggregate claims of foreign nationals, but with a mass of information about individual claimants and individual shareholders, not excluding even details as to the family of an individual shareholder. To this unpractical proposal the subcommission replied that they were ready to give, for what they were worth, a summary from each country of the claims under the various categories of property, though for obvious reasons such figures must be in the nature of a general provisional estimate, the accuracy of which it was impossible for governments to guarantee or even for claimants themselves to determine with certainty. The subcommission went on to point out that any such detailed information as had been asked for by the Russian commission was at once impossible to supply and useless even if it could be collected. It would take months to collect the information; and The Hague commission would be finished before the information could arrive. It was irrelevant to the work of the commission, which had not to adjudicate upon individual claims, but was charged with the duty of making general recommendations. If

the Russian government acknowledged its obligation to meet claims, it would be necessary to agree upon the relevant information which claimants should be called upon to furnish to whatever body was set up to adjudicate upon their claims.

G. The subcommission then proceeded to deal with the practical questions at issue. Although at the first meeting with the Russian commission Mr. Litvinoff stated that the Russian government, in ceding undertakings to private individuals, refused to give any pledge that they would be guided by the consideration that those undertakings had previously belonged to particular persons, thereby foreshadowing an issue of grave importance, the subcommission were determined to see whether in practice the concessions which the Soviet government were prepared to make were in fact such, as to afford any hope either of the satisfaction of the just claims of their nationals, or of the reconstruction of Russian industry. At a subsequent meeting Mr. Litvinoff tabled a list of properties. He made it clear that this was a list of properties which the Russian government was prepared to grant to private capitalists either on concession, or on lease, or in the form of mixed companies. But, though it appeared that previous owners would be given the first refusal of such properties, there was no assurance that they would be given any financial or other preference over other competitors, notwithstanding the fact that the whole value of the property might be attributable to the capital which the previous owner had invested in the factory or undertaking.

H. The production of this list and the explanations given by Mr. Litvinoff raised immediately and directly all the relevant questions on private property. An examination of the list showed that it included a relatively small proportion of the properties previously held by foreign nationals, and that whole groups of industry, such as engineering, textiles, coal, trading, and distributing undertakings, breweries and nonmineral oil works, were entirely excluded from the list. Mr. Litvinoff further stated that the great majority of properties intended for concessions were included in the list, though there might be small, but not very important additions. It appeared therefore that, even assuming the whole of the properties included in the list were to be revested in their previous owners, in the great majority of cases the industry of Russia, so far as it had been built up by foreign enterprise, would still be retained in the inexperienced and unsuccessful hands of the Soviet government.

I. Moreover, there was no guarantee whatever that one single property included in the list would be restored to its previous owner. Indeed, restitution was categorically refused in principle, and there was no security that it would ever be carried out in practice. It is true that the Russian delegation expressed the hope that, if previous owners negotiated for the return of their properties, in so far as they were comprised in the list, they would offer terms which would be acceptable to the Soviet government; but they made it plain that in every case the concession of property to a previous owner must be made the subject of an individual and separate agreement negotiated between that owner and the Soviet government. Further, it should be clearly understood that, in discussing restitution as a practical issue, the subcommission were not insisting upon questions of principle or juridical issues. They were prepared to discuss the tenure and the terms upon which a previous owner should receive his property back. But they were met throughout with a categorical refusal, not merely to acknowledge any right to restitution, but even to define any conditions which would provide for restitution of possession in any shape or form.

J. Nor were the Russian representatives prepared to give any practical assurances in the matter of compensation. It is evident that the effective compensation which they can give, other than the restitution of the possession of property in one form or another, is very limited. Not only did they refuse to give any assurance that this effective form of compensation would be granted generally or indeed in any case, but the Russian government declined on the property commission to accept any liability whatsoever to make compensation in any form unless they first received credits. They were not even prepared to discuss the form which such compensation might take, assuming they were ready to undertake a liability, unless they had previously been promised credits. The subcommission was, therefore, asked seriously to entertain the proposal that in effect foreign countries should themselves pay for the compensation of their own nationals, while the Russian government refused to discuss even the possibility of guaranteeing the one form of compensation which lay within their competence.

K. In such circumstances the subcommission was bound to conclude that it was as impossible to find a solution in practice as it had been to reconcile conflicting principles. Moreover, we can not escape the conclusion that there has in fact been no real acceptance of the Cannes resolutions. The acceptance of an obligation to make

restitution or give compensation is no mere recital of a legal formula. It is an essential condition for the creation of confidence. Even if the Russian government were prepared to agree to general conditions where property is to be taken up in Russia, such as immunity from confiscation and general facilities for the conduct of business (and in spite of marked discrepancies in the statements made before us we are ready to assume that such general conditions could be obtained), there would be no feeling of security that those conditions would be honored, if the obligations of the past are to be wholly disregarded. It is axiomatic that investors will be unwilling to lend money to Russia so long as the Russian government repudiates the liabilities of its predecessors and thereby precludes all faith in its own promises and forfeits all claim to bind its successors. It is not more likely that men will be willing to accept an assurance of the Russian government that property will in future be immune, and that general conditions will be fulfilled, so long as the government rejects all claims by former owners to restitution or effective compensation.

L. But there is another consideration which emerges inevitably from the discussions which have taken place and the declarations which have been made. The derelict condition of Russian industry today, the chaos into which it has been plunged by those who have seized control, convinced us that there can be no hope for the restoration of that industry and of the industrial life of Russia, unless the Russian government is prepared wholeheartedly to seek the cooperation of foreign skill and foreign capital. It will be at best a long and uphill task. It will need an optimism and a courage which can only come if the Russian government is prepared to prove its full purpose to secure that cooperation. It is needed in every field of industry and enterprise; and yet in the face of these difficulties and in the face of this urgent need, it is the present intention of the Russian government to retain in its own hands the greater proportion of the industry built up by foreign enterprise. This decision and the declarations which its delegation has made can leave us in no doubt as to our conclusion.

M. We arrive at this conclusion with profound regret. We have been ready and anxious to consider any new facts or any fresh proposals which could be put before us by the Russian delegation. None have so far been forthcoming. Upon the facts before us we are convinced that in spite of all the practical efforts which have been made to attain a solution, no arrangement is possible at the

present time. We regret profoundly that we are driven to report in this sense. We regret that our deliberations have failed to achieve an agreement; but we feel that, in spite of our failure, inevitable in view of the attitude of the Russian delegation, this conference has been of value, in that it has enabled us to establish clearly and plainly the facts and the reasons why it is impossible under present conditions to arrive at an arrangement.

N. We can not conclude without expressing the hope that, recognizing those facts, saner counsels may yet prevail, and that Russia may once again create conditions which will command the confidence and the cooperation of those countries who came to this conference with the single-minded purpose of giving that cooperation, were it possible.

II. REPORT OF THE SUBCOMMISSION ON DEBTS

The second non-Russian subcommission (debts), in accordance with the procedure determined by the preliminary conference at The Hague devoted itself to an attempt to find a basis of facts for negotiation on the subjects falling within its scope. It exchanged with the Russian commission the information which appeared necessary for the purpose of its inquiries; in particular, information relative to the financial position of Russia and statistics of Russian securities in the possession of foreign nationals.

In order to discover whether it were possible to come to an agreement with the Russian commission, the non-Russian commission then proceeded to put to them certain questions relative to the manner in which the debt was to be dealt with.

The replies to these questions have brought out certain fundamental differences between the Russian and non-Russian commission points of view. It has also become clear from these replies that the Russian commission attached conditions, impracticable at the moment, to the acceptance of certain proposals which the non-Russian commission considered essential. Consequently the non-Russian commission is of opinion that "the present position of the conference renders further discussions with the Russians inopportune."

A. *Terms of Reference of the Subcommission.*—The subcommission limited its inquiries to the following categories of debts:

a. Securities issued by Russian governments
b. Securities issued by other local authorities: public utility companies guaranteed by Russian governments
c. Securities issued by local authorities and public utility companies not guaranteed by Russian governments
d. Russian treasury bills
e. Other public debts represented by securities, including securities issued by agricultural and peasant banks

The Russian commission accepted this programme.

B. *Examination of Budget Proposals.*—The subcommission examined the financial situation of Russia, as revealed by documents furnished and statements made by the Russian commission.

These documents consisted, firstly, of the budget proposals for the first nine months of 1922, and, secondly, of various statistics of government revenue, and of memoranda and statistics relative to the position of the state bank.

A certain number of questions was asked by the non-Russian subcommission about the budget and the economic situation in Russia. The more precise information which was elicited in this manner was sufficient to make it quite clear that the budget proposals hold out no hope whatever that it will be possible at an early date to balance revenue and expenditure in Russia. And what is even more serious, it was clear that the budget proposals gave no real indication of actual conditions in Russia.

Having compared, so far as possible, the figures of the budget proposals produced at Genoa with those produced at The Hague, and having considered the actual revenue for the first four months of 1922 in relation to the estimated revenue for those months, the non-Russian commission came to the unanimous conclusion that, in spite of the optimistic but unjustifiable assurances which the Russian commission had given as regards the prospects of the harvest, these budget proposals could not seriously be considered as a starting point for the financial reconstruction of Russia. Consequently the budget proposals afford no basis for determining whether and when it will be possible to resume the service of the Russian debt.

C. *Statistics.*—The information furnished by the non-Russian experts, and set forth in the annexes to the minutes, make clear what is the total amount of foreign claims against Russia, so far

as the debt is concerned. In presenting this information to the commission, it was expressly stated that it was impossible, at this stage, to furnish absolutely accurate statistics of this nature.

The non-Russian subcommission rejected a proposal of the Russian commission that a questionnaire (of which the text was furnished) should be circulated to all the holders of Russian securities. The non-Russian commission considered that the proposed inquiry would be expensive and useless at the present stage of the negotiations, even if the circulation of a questionnaire of this nature might have a certain interest as soon as agreement had been reached as to the basis upon which payment should be made. Moreover, certain items in the questionnaire were intended clearly to prejudge the question actually under discussion.

Disagreement with the Russian commission became apparent as soon as the non-Russian subcommission started to examine questions relative to recognition of the debt, and the manner in which its service should be resumed.

D. *Recognition of the Debt.*—In the letter in which M. Chicherin, on October 28, 1921, asked for assistance from the Powers for the economic reconstruction of Russia, it was explicitly stated that the Russian government was ready to recognize "obligations to other states and their nationals arising from state loans concluded by the Czarist government in 1914, with the express proviso that special conditions should be agreed to and facilities given, which would render it possible for this undertaking to be fulfilled."

This was the only limitation placed by M. Chicherin upon the recognition of debts, apart from political conditions, which are outside the scope of an enquiry by experts.

The Cannes resolution of January 6, 1922, laid it down that this recognition was an essential condition for the reestablishment of that sense of security which was indispensable for the cooperation of foreign capital.

Taking its stand on the facts of the case, the non-Russian subcommission came to the conclusion that no steps had been taken to revoke the decree of December 28, 1918, which was followed up by the decree of January 31, 1918, nor the decree of September 16, 1920, which suspended the right to receive compensation for the cancellation of state debts.

M. Sokolnikoff declared that "Russia did not consider herself bound by obligations entered into by the Czarist government" and that he could not modify the engagement which had been

entered into with the Russian people that the debts of the old regime would only be recognized on the following conditions:

a. The conclusion of an arrangement which should place the Russian government in a position to accelerate the economic reconstruction of Russia, and
b. The grant of a moratorium or other facilities.

On this point the non-Russian subcommission was forced to the conclusion that the demands of the Soviet government had increased as compared with the position taken up in M. Chicherin's letter of October 28, 1921. By maintaining this attitude the Russian commission is running directly counter to the object which it has in view, namely, an appeal to foreign capital to come to the assistance of its country. The Cannes resolution set forth the conditions which were essential if this assistance was to be forthcoming, but it was never its intention to impose arbitrary conditions upon Russia; it merely expressed an unalterable rule which governs the movement of capital. The Russian commission deposed to thinking that recognition of debts is not indispensable to the reestablishment of Russian credit. It is possible for a debtor state, after temporary default, to make suitable arrangements with its creditors and to restore confidence in itself, but the case is entirely different if such a State repudiates the obligations of its predecessors. In the face of such a precedent, one may well ask what guarantees the provider of new capital will have against a fresh domestic upheaval or a fresh repudiation of the obligations contracted by the government to which he is invited to lend? Experience alone can teach the Soviet government that unless it is ready, apart from all other considerations, to assume the obligations of its predecessors, it will find it impossible to raise abroad those loans which, by its own admission, are indispensable for the economic reconstruction of Russia.

E. *Methods for the Resumption of the Service of the Debt.*—The bondholders themselves have almost certainly realized that the service of the debt can not, under existing conditions, be immediately resumed.

The non-Russian commission asked that, in accordance with precedent, agreements concerning the moratorium and facilities for payment, as well as the guarantees customary in cases where the original contract is modified, should be negotiated between

authorized representatives of the bondholders and the Russian government.

The Russian experts considered this proposal and suggested direct discussion of the question with foreign governments.

These governments on the other hand consider that they ought not in principle to impose upon their nationals any modifications of a contract without the consent of the interested parties. The uncertainty of the financial position of Russia, which is clearly demonstrated in this report, shows how impossible it would be, even when an agreement had been reached, to determine the date of and methods for the resumption of the service of the debt. It is no more possible to leave these points to be decided by the Soviet government alone than it is to leave the bondholders at the mercy of interminable negotiations for the recognition of their rights.

The non-Russian subcommission further envisaged the creation of a joint body set up for the purpose of fixing, in the light of the economic condition of Russia, the date of the resumption of the service of the debt, as well as the necessary delays in payment, facilities, and guarantees. Without absolutely rejecting the practical proposal thus made, the Russian commission threw doubts on the possibility of finding an independent arbitrator capable of deciding between the parties.

The non-Russian subcommission could not share this point of view. Impartial judges do exist who are capable of reaching a decision within the terms of reference upon questions of fact relevant to the possibilities of payment and to the economic necessities of a country.

F. *Global Payment of Debt and Indemnities.*—Finally, the non-Russian subcommission gave serious consideration to a proposal put forward incidentally in the course of discussion by the Russian commission.

This proposal would envisage the fixing of a global sum for the debts of the Russian government abroad, and would leave to governments the task of dividing this sum between the interested parties. The Russian commission made it clear that this global sum would comprise both public debts and other indemnities. As regards securities, the non-Russian subcommission considered that this proposal could not be regarded as a practical one in present conditions. We are of the opinion that the obligation of the Russian government remains as defined in the conditions of the original contract. This obligation consists in the payment of interest and

amortization. To imagine that Russia, incapable of making interest payments, could pay a forfeit, is not to make a serious proposal. Besides, as we saw above, the Russian commission made the recognition of debts, as well as of compensation for damages caused to property by the action or negligence of the Soviets, dependent upon conditions which the other subcommissions of the conference considered unrealizable.

G. *Conclusion.*—The basis of our labours is thus made manifest. This statement of the facts displays the equivocation we have always encountered. We ask, in the first place, recognition of debts—in addition to the restoration of private property, either by restitution or by effective compensation. If the Russian government does not see the sole means it possesses to reestablish confidence, it can not—whether other governments are willing or not—appeal to world credit in definite terms. Our demands on this question are dictated, not only by the desire to safeguard the unexceptionable interests of foreigners in contracts, the execution of which is guaranteed by the law of nations, nor by the necessity to show, even in the interests of the credit of all other states, that the signature of a government is not at the mercy of political upheavals, but also by our desire to lead Russia, by confidence and by respect for the pledged word, even of one's predecessors, to the economic level of Europe. We firmly hope that these conditions will be able to be realized in the near future for the greater benefit of Russia, to whom our sympathies go out.

III. REPORT OF THE SUBCOMMISSION ON CREDITS

In order to bring negotiations to a practical result, the third non-Russian subcommission approached its work, keeping in mind certain fundamental ideas representing the sum of actual possibilities and the limitations of the cooperation of Europe in the reconstruction of Russia.

Therefore the subcommission proceeded first of all to consider the work previously accomplished in this respect and the conclusions of the Genoa Conference. It will be remembered that on that occasion it was clearly understood that owing to present economic conditions European governments were not in a position to contribute to the restoration of Russia by public loans or by the granting of credits to the Soviet government, but only by means of suitable encouragements, which the different European govern-

ments would give to private capital in a form calculated to attain the object in view.

After careful considerations by the various experts, the Genoa Conference recognized that the International Financial Corporation, the British export credits [schemes] and trade facilities acts answered the desired purpose. Although it might be difficult to find other plans, it was intended not to exclude other provisions and other plans of cooperation which might be offered by other states in accordance with their special conditions.

Yet all these measures were dependent upon one general and unalterable condition (general and unalterable because it stood above any decision of the governments themselves); the condition that it must always and exclusively be a question of the mobilization of private capital, and that consequently it would be impossible to ignore the elements of security and confidence without which, even with government guarantee, private capital could not be raised.

In this sense the subcommission could not fail to consider as a necessary element for the reconstruction of Russia, the return to Russia of the former foreign owners and managers of industrial, commercial, and agricultural enterprises under conditions acceptable to them.

Besides the invaluable contribution of their technical knowledge, of their activity and of the bringing in of fresh capital, their return to Russia would have represented an essential condition for the revival of confidence in the fulfilment of the moral obligations which the Soviet government would then assume. In this respect the work of the subcommission on credits was closely connected with that of the subcommission on private property.

In the course of the first meetings with the Russian commission, the subcommission, yielding to the desire expressed by the Russian delegation at Genoa to be allowed to expound its own plan of reconstruction, invited them to indicate the amount and the form of the credits required, as well as their destination.

The Russian delegation in the meeting of the 30th June handed the subcommission the list of credits which they considered necessary to Russia and demanded a sum of 3 milliards [billions] and 224 millions of gold roubles, distributed over a period of three years. That sum was divided as follows:

1050 millions for transport
924 millions for agriculture

750 millions for state industries
500 millions for trade and banks

In commenting upon these figures, M. Litvinoff states that they were intended to cover the immediate requirements of Russia and that they had been considerably reduced in view of the economic situation of the whole world. He reserved the right to indicate the other credits which were indispensable to private industries. The amount of these credits was to be determined by means of direct agreements with the various concessionnaires.

M. Sokolnikoff explained that of the 500 millions for trade and banks, 300 millions were intended for the Russian cooperative societies and 200 millions required by the [Russian] State Bank.

Notwithstanding the importance of the sums required, and of the declarations made by M. Litvinoff that these credits were to be granted to the Soviet government, the non-Russian commission submitted to the Russians a series of questions for the purpose of collecting more precise information about the destination of these credits and the carrying out of the plan of private reconstruction.

Without going into the question whether the amount required constituted an insuperable obstacle to the drawing up of a practical plan of reconstruction, it was considered than an important part of this plan might be worked out in regard to industry by the return of the former foreign owners, and in regard to other classes of credits by giving priority to the most urgent necessities of Russia.

The demand made by M. Litvinoff that the credits were to be granted to the Soviet government was not considered so absolute in its character as to render impossible the carrying out of the plan of reconstruction by means of private capital, in such a form as to allow the investors a certain control over the use and the administration of their own funds, which, it was to be assumed, they would require, and the Russian state the protection of their legitimate interests.

The minutes of the meetings of this conference give a proof of the good dispositions shown by the non-Russian subcommission, when examining the demands submitted by M. Litvinoff.

In the fourth meeting of the non-Russian subcommission the president asked his colleagues to be prepared to inform him within what limits each state was willing to cooperate in the reconstruction of Russia.

A few states, and amongst them Latvia, Esthonia, had already

formulated some very interesting proposals concerning their cooperation, while the British delegation had already repeated on several occasions that they maintained the position assumed at Genoa in this respect.

But the meeting of July the 7th of the subcommission on private property and that of July the 10th, of the subcommission on credits altered the situation of the subcommission's discussions.

The statements made by the Russian delegation in the meetings of the subcommittee on private property and of the subcommittee on credits rendered further discussions useless.

Not only M. Litvinoff and M. Krassin made to the subcommission on private property the statements regarding restitution and compensation to previous owners, which induced the same subcommission to break off its work, as it was already reported by its president, but in regard to credits, the Russian delegation thought it expedient to emphasize so definitely that the sum of 3 milliards 224 million gold roubles was to be granted solely to the Soviet government and that it did not include loans to private persons (for which, it was added, there were no limitations), that any hope of arriving at a conclusion disappeared.

It appeared almost as if the Russian delegation did not want to come to an agreement any longer, because it was difficult to imagine that both M. Litvinoff and M. Krassin, whose unfamiliarity with the conditions of Europe and of the functioning of credit one can not admit to be so great, could really be of opinion that the cooperation of Europe was practical along the lines which they had suggested.

M. Litvinoff repeatedly considered that he had fully answered the objections which on several occasions had been submitted to him by the non-Russian subcommission, by remarking that the Soviet government intended to negotiate with governments and that it was the business of governments to guarantee credits and that consequently there could be no question of dealing directly with the representatives of private capital, so far as the demands he put forward were concerned.

He appeared to imagine that the various governments can guarantee the investment of private capital in conditions differing from those which capital itself naturally requires?

Governments can assume a part of the risk and thereby in certain eventualities impose a burden on their own taxpayers, but they can not alter economic laws.

The impossibility for governments to open credits to Russia, the

conditions on which private capital can operate, M. Litvinoff's idea that government guarantees of private credits are the same thing as credits to the Soviet government, all of this was so masterfully explained by Commander Hilton Young in his speech of the 14th July that I propose to annex this speech to the present report.

These considerations and the breaking off of the negotiations of the subcommission on private property, are the reason which compelled the subcommission on credits to interrupt their own negotiations.

It will serve the purpose of this report to resume at this point its main points and to draw certain conclusions, even if in so doing some repetitions may be involved.

The facts that we look forward to an early resumption of negotiations and hope that a successful issue to them may be found, make it desirable that all possibility of misunderstanding should be eliminated in order that the work accomplished at Genoa and The Hague may not remain fruitless, but on the contrary it may represent an elucidation not only of theoretical points of view but also of material facts.

As regards the cooperation which Europe can give to Russia, it is well to state that The Hague Conference has once more recognized:

a. That the Russian government can obtain direct from the European governments neither loans nor credits

b. That Europe can cooperate in the restoration of Russia only by the means of private capital

c. That the guarantees which governments can give to capital can not change the laws according to which private capital operates nor can they be subtituted for these laws

d. That it lies with Russia to create, by means of an agreement on the problems substituted to the other subcommittees, the atmosphere necessary for transplanting again the exotic plant of capital upon Russian ground so that it may cooperate with its fruits into the restoration of that country

From the discussions which have taken place there appears another conclusion of a general character:

If it be true, as we all have acknowledged, that there is an economic solidarity between Russia and the remainder of Europe; that on one

hand it is to the interest of Europe that Russia should once more participate into the economic European system, and that on the other hand Russia requires the help of Europe in order to accelerate its own revival, then we should all recognize that we have got beyond the conception that the acknowledgment of obligations on the part of Russia is a matter for bargain against credits, and that future negotiations will have to be inspired by the principles of solidarity and of reciprocal interest.

Only if this conception shall prevail an agreement will be possible, because in that case Russia will spontaneously reestablish the conditions of confidence which she considers today a matter of bargaining, and Europe will offer willingly her cooperation to Russia within the limits of her powers such as they may be.

We do not doubt that such a day is not far away. It is in this spirit that we have reaffirmed in our communication to the Russian commission that the intention of the states participating in the conference of The Hague remains unchanged toward Russia.

IV. RESOLUTION PASSED BY THE NON-RUSSIAN COMMISSION AT THE FINAL PLENARY SESSION ON 20TH JULY, 1922

The conference recommends for the consideration of the governments represented thereon the desirability of all governments not assisting their nationals in attempting to acquire property in Russia which belonged to other foreign nationals and which was confiscated since November 1, 1917, without the consent of such foreign owners or concessionnaires, provided that the same recommendation is subsequently made by governments represented at The Hague conference to all governments not so represented, and that no decision shall be come to except jointly with those governments.

V. OFFICIAL POSITION OF THE UNITED STATES WITH REGARD TO RUSSIA, 1923

I. STATEMENT OF THE POSITION TAKEN BY THE DEPARTMENT OF STATE [1]

The seizure of control by a minority in Russia came as a grievous disappointment to American democratic thought which had enthusiastically acclaimed the end of the despotism of the Czars and the entrance of free Russia into the family of democratic nations. Subsequent events were even more disturbing. The right of free speech and other civil liberties were denied. Even the advocacy of those rights which are usually considered to constitute the foundation of freedom was declared to be counter-revolutionary and punishable by death. Every form of political opposition was ruthlessly exterminated. There followed the deliberate destruction of the economic life of the country. Attacks were made not only upon property in its so-called capitalistic form, but recourse was had also to the requisitioning of labor. All voluntary organizations of workers were brought to an end. To unionize or strike was followed by the severest penalties. When labor retaliated by passive resistance, workmen were impressed into a huge labor army. The practical effect of this program was to plunge Russia once more into medievalism. Politically there was a ruthless despotism and economically the situation was equally disastrous.

It is true that, under the pressure of the calamitous consequences, the governing group in Russia has yielded certain concessions. The so-called new economic policy permitted a partial return to economic freedom. The termination of forcible requisitions of grain has induced the peasantry to endeavor to build up production once more, and favorable weather conditions have combined to increase the agricultural output. How far the reported exports of Russian grain are justified by the general economy of the country is at least an open question. Manufacturing industry has to a great

[1] Letter addressed on July 19, 1923, to the President of the American Federation of Labor by the Secretary of State of the United States.

extent disappeared. The suffrage, so far as it may be exercised, continues to be limited to certain classes and even among them the votes of some categories count more than the votes of others. A new constitution has just now been promulgated providing in effect for the continuance of the regime of the 1917 *coup d'état* under a new title. The constitution, it is understood, contains no bill of rights, and the civil liberties of the people remain insecure. There is no press except the press controlled by the regime, and the censorship is far-reaching and stringent. Labor is understood to be still at the mercy of the state. While membership in official unions is no longer obligatory, workmen may not organize or participate in voluntary unions.

The fundamentals of the Russian situation are pretty generally understood in the United States and have made a profound impression upon the thought of our people. We are constantly made aware of this in the Department of State by the various ways in which public opinion makes itself felt in the seat of government. We learn of the hope of America that Russia should have the opportunity of free political expression and that she should be enabled to restore her economic life and regain prosperity and once more to take her place among the nations on the basis of mutual helpfulness and respect. There can be no question of the sincere friendliness of the American people toward the Russian people. And there is for this very reason a strong desire that nothing should be done to place the seal of approval on the tyrannical measures that have been adopted in Russia or to take any action which might retard the gradual reassertion of the Russian people of their right to live in freedom.

To the Department of State, charged with the conduct of our foreign relations, in accordance with the accepted principles of international intercourse, the problem presents itself necessarily in somewhat less general terms. We are not concerned with the question of the legitimacy of a government as judged by former European standards. We recognize the right of revolution and we do not attempt to determine the internal concerns of other states. The following words of Thomas Jefferson, in 1793, express a fundamental principle: "We surely can not deny to any nation that right whereon our own government is founded—that everyone may govern itself according to whatever form it pleases, and change these forms at its own will; and that it may transact its business with foreign nations through whatever organ it thinks proper

whether king, convention, assembly, committee, president or anything else it may choose. The will of the nation is the only thing essential to be regarded." It was undoubtedly this principle which was invoked by the representative of the Department of State, in the statement which you quote as having been made in February, 1921, before the House Committee on Foreign Affairs on the consideration of House Resolution 635, 66th Congress, 3d session. It must be borne in mind, however, that while this government has laid stress upon the value of expressed popular approval in determining whether a new government should be recognized, it has never insisted that the will of the people of a foreign state may not be manifested by long-continued acquiescence in a regime actually functioning as a government. When there is a question as to the will of the nation it has generally been regarded as a wise precaution to give sufficient time to enable a new regime to prove its stability and the apparent acquiescence of the people in the exercise of the authority it has assumed. The application of these familiar principles in dealing with foreign states is not in derogation of the democratic ideals cherished by our people, and constitutes no justification of tyranny in any form, but proceeds upon a consideration of the importance of international intercourse and upon the established American principle of non-intervention in the internal concerns of other peoples.

But while a foreign regime may have securely established itself through the exercise of control and the submission of the people to, or their acquiescence in, its exercise of authority, there still remain other questions to be considered. Recognition is an invitation to intercourse. It is accompanied on the part of the new government by the clearly implied or express promise to fulfill the obligations of intercourse. These obligations include, among other things, the protection of the persons and property of the citizens of one country lawfully pursuing their business in the territory of the other and abstention from hostile propaganda by one country in the territory of the other. In the case of the existing regime in Russia, there has not only been the tyrannical procedure to which you refer, and which has caused the question of the submission or acquiescence of the Russian people to remain an open one, but also a repudiation of the obligations inherent in international intercourse and a defiance of the principles upon which alone it can be conducted.

The persons of our citizens in Russia are for the moment free

from harm. No assurance exists, however, against a repetition of the arbitrary detentions which some of them have suffered in the past. The situation with respect to property is even more palpable. The obligations of Russia to the taxpayers of the United States remain repudiated. The many American citizens who have suffered directly or indirectly by the confiscation of American property in Russia remain without the prospect of indemnification. We have had recent evidence, moreover, that the policy of confiscation is by no means at a end. The effective jurisdiction of Moscow was recently extended to Vladivostok and soon thereafter Moscow directed the carrying out in that city of confiscatory measures such as we saw in western Russia during 1917 and 1918.

What is most serious is that there is conclusive evidence that those in control at Moscow have not given up their original purpose of destroying existing governments wherever they can do so throughout the world. Their efforts in this direction have recently been lessened in intensity only by the reduction of the cash resources at their disposal. You are well aware from the experiences of the American Federation of Labor of this aspect of the situation which must be kept constantly in view. I had occasion to refer to it last March in addressing the women's committee for the recognition of Russia. It is worth while to repeat the quotations which I then gave from utterances of the leaders of the bolshevik government on the subject of world revolution, as the authenticity of these has not been denied by their authors. Last November, Zinoviev said, "The eternal in the Russian revolution is the fact that it is the beginning of the world revolution." Lenin, before the last Congress of the third internationale, last fall, said that "the revolutionists of all countries must learn the organization, the planning, the method and the substance of revolutionary work." "Then, I am convinced," he said, "the outlook of the world revolution will not be good but excellent." And Trotsky, addressing the fifth congress of the Russian communist youths at Moscow last October—not two years ago but last October—said this: "That means, comrades, that revolution is coming in Europe as well as in America, systematically step by step, stubbornly and with gnashing of teeth in both camps. It will be long protracted, cruel and sanguinary."

The only suggestion that I have seen in answer to this portrayal of a fixed policy is that these statements express the views of the individuals in control of the Moscow regime rather than of the

regime itself. We are unable, however, to find any reason for separating the regime and its purpose from those who animate it, and control it, and direct it so as to further their aims.

While this spirit of destruction at home and abroad remains unaltered the question of recognition by our government of the authorities at Moscow can not be determined by mere economic considerations or by the establishment in some degree of a more prosperous condition, which of course we should be glad to note, or simply by a consideration of the probable stability of the regime in question. There can not be intercourse among nations any more than among individuals except upon a general assumption of good faith. We would welcome convincing evidence of a desire of the Russian authorities to observe the fundamental conditions of international intercourse and the abandonment by them of the persistent attempts to subvert the institutions of democracy as maintained in this country and in others. It may confidently be added that respect by the Moscow regime for the liberties of other peoples will most likely be accompanied by appropriate respect for the essential rights and liberties of the Russian people themselves. The sentiment of our people is not deemed to be favorable to the acceptance into political fellowship of this regime so long as it denies the essential basis of intercourse and cherishes, as an ultimate and definite aim, the destruction of the free institutions which we have laboriously built up, containing as they do the necessary assurances of the freedom of labor upon which our prosperity must depend.

II. PRESIDENT COOLIDGE ON RUSSIA [1]

Our diplomatic relations, lately so largely interrupted, are now being resumed, but Russia presents notable difficulties. We have every desire to see that great people, who are our traditional friends, restored to their position among the nations of the earth. We have relieved their pitiable destitution with an enormous charity. Our government offers no objection to the carrying on of commerce by our citizens with the people of Russia.

Our government does not propose, however, to enter into relations with another regime which refuses to recognize the sanctity of international obligations. I do not propose to barter away, for

[1] From Message to Congress, December 9, 1923.

the privilege of trade, any of the cherished rights of humanity. I do not propose to make merchandise of any American principles. These rights and principles must go wherever the sanctions of our government go.

But while the favor of America is not for sale, I am willing to make very large concessions for the purpose of rescuing the people of Russia. Already encouraging evidences of returning to the ancient ways of society can be detected. But more are needed. Whenever there appears any disposition to compensate our citizens who were despoiled, and to recognize that debt contracted with our government, not by the Czar, but by the newly formed Republic of Russia; whenever the active spirit of enmity to our institutions is abated; whenever there appear works meet for repentance, our country ought to be the first to go to the economic and moral rescue of Russia. We have every desire to help and no desire to injure. We hope the time is near at hand when we can act.

III. NOTE SENT BY THE SOVIET COMMISSARY FOR FOREIGN AFFAIRS [1]

It has been the constant endeavor of the Soviet government to bring about a resumption of friendly relations with the United States of America based upon mutual trust. With this in view, it has repeatedly announced its readiness to enter into negotiations with the American government and to remove all misunderstandings and differences between the two countries.

After reading your message to Congress, the Soviet government, sincerely anxious to establish at last firm friendship with the people and government of the United States, informs you of its complete readiness to discuss with your government all problems mentioned in your message, these negotiations being based on the principle of mutual nonintervention in internal affairs. The Soviet government will continue wholeheartedly to adhere to this principle, expecting the same attitude from the American government.

As to the questions of claims, mentioned in your message, the Soviet government is fully prepared to negotiate with a view toward its satisfactory settlement on the assumption that the principle of reciprocity will be recognized all around. On its part, the Soviet government is ready to do all in its power, so far as the dignity and

[1] Addressed to the President of the United States on December 16, 1923.

interests of its country permit, to bring about the desired end, of renewal of friendship with the United States of America.

CHICHERIN,
People's Commissary for Foreign Affairs.

IV. SECRETARY HUGHES'S REPLY TO MOSCOW [1]

There would seem to be at this time no reason for negotiations. The American government, as the President said in his message to the Congress, is not proposing to barter away its principles.

If the Soviet authorities are ready to restore the confiscated property of American citizens or make effective compensation, they can do so. If the Soviet authorities are ready to repeal their decree repudiating Russia's obligations to this country and recognize them, they can do so. It requires no conference or negotiations to accomplish these results, which can and should be achieved at Moscow as evidence of good faith.

The American government has not incurred liabilities to Russia or repudiated obligations. Most serious is the continued propaganda to overthrow the institutions of this country. This government can enter into no negotiations until these efforts directed from Moscow are abandoned.

[1] Transmitted to Moscow on December 18, 1923, through the American Legation in Riga.

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